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California

e file

For more information regarding business e-file, see page 2 or go to our website at ftb.ca.gov and search for **business e-file**.

California

Forms & Instructions

100W

2008

Corporation Tax Booklet
Water's-Edge Filers

Members of the Franchise Tax Board

John Chiang, Chair

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This booklet contains:

Form 100W, California Corporation Franchise or Income Tax Return — Water's-Edge Filers

Schedule H (100W), Dividend Income Deduction — Water's-Edge Filers

Schedule P (100W), Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers

Form 100-WE, Water's-Edge Election

FTB 2416, Schedule of Included Controlled Foreign Corporations (CFC)

FTB 2424, Water's-Edge Foreign Investment Interest Offset

FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs

FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

FTB 3885, Corporation Depreciation and Amortization



STATE OF CALIFORNIA
FRANCHISE TAX BOARD

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~~Business e-file~~

~~Business e-file began in January of 2006, allowing business taxpayers to e-file the Form 100, Corporation Franchise or Income Tax Return (except for Combined Reports) for the first time. In January 2007, the following additional return types were added:~~

- ~~• Form 100S, S Corporation Franchise or Income Tax Return~~
- ~~• Form 565, Partnership Return of Income~~
- ~~• Form 568, Limited Liability Company Return of Income~~

~~Beginning June 2008, the Franchise Tax Board (FTB) offers e-filing for Corporations filing Combined Reports and the Form 100W, Corporation Franchise or Income Tax Return — Water's-Edge Filers.~~

~~For more information, go to our website at ftb.ca.gov and search for **business e-file**.~~

Instructions for Form 100W

California Corporation Franchise or Income Tax Return — Water's-Edge Filers

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 2005, and to the California Revenue and Taxation Code (R&TC).

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to our website at ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Introduction

Corporations may elect to compute income attributable to California sources on the basis of a water's-edge combined report. In general, under a water's-edge election, affiliated foreign corporations are excluded from the combined report.

For purposes of these instructions, the word "taxpayer" means a corporation in the combined group that has a California filing requirement.

The statute allowing the corporation to file on a water's-edge basis does not supersede the concept of unity; it merely limits the unitary entities included in the combined report. For a discussion of the concepts of the unitary method of taxation and its application by the state of California, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report. Once the corporation computes its income attributable to California sources on the water's-edge combined report basis, the corporation may either file a separate return or may elect to file a single return with the other corporations in the water's-edge group. See Schedule R-7, Election to File a Unitary Taxpayers' Group Return, which is included in Schedule R, Apportionment and Allocation of Income.

S corporations normally may not be included in a combined report. For S corporations filing on a water's-edge basis, this booklet should be used in conjunction with Form 100S, California S Corporation Franchise or Income Tax Return.

For more information, see General Information R, Apportionment of Income; S, Combined Report; and T, Water's-Edge Reporting.

What's New/Tax Law Changes

Third Party Designee — For taxable years beginning on or after January 1, 2008, the corporation can designate a third party to discuss the tax return with the Franchise Tax Board (FTB). For more information, see General Information X, Signatures.

Conformity — For updates regarding the following federal act, go to our website at ftb.ca.gov and search for **conformity**.

Economic Stimulus Act of 2008

e-filing — Beginning June 2008, the FTB offers e-filing for Corporations filing Combined Reports and Form 100W, California Corporation Franchise or Income Tax Return — Water's-Edge Filers, and certain accompanying forms and schedules. Check with the software provider to see if they support business e-filing.

Tax-Exempt Organizations — For taxable years beginning on or after January 1, 2008, the FTB allows certain organizations California exempt tax status after the submission of the approved federal exempt status. Get form FTB 3500A, Submission of Exemption Request, for more information.

Important Information

- If the corporation was involved in a reportable transaction, including a listed transaction, the corporation may have a disclosure requirement. Attach federal Form 8886, Reportable Transaction Disclosure Statement, to the back of the California return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, send a duplicate copy of federal Form 8886 to the address below. The FTB may impose penalties if the corporation fails to file federal Form 8886, Form 8918, Material Advisor Disclosure Statement, or any other required information. A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

ATSU 398 MS F385
FRANCHISE TAX BOARD
PO BOX 1673
SACRAMENTO CA 95812-9900

For more information, go to our website at ftb.ca.gov and search for **tax shelter**.

- ~~Round Cents to Dollars~~ — Round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25. If the corporation does not round, FTB will disregard the cents. This change helps process the returns quickly and accurately.
- ~~Form FTB 3726 — Deferred Intercompany Stock Account (DISA) and Capital Gains Information~~ — Use form FTB 3726, Deferred Intercompany Stock Account (DISA) and Capital Gains Information, to meet the annual disclosure requirements of the combined reporting group of each DISA balance.
- A C corporation is a separate legal entity and generally offers liability protection to its owners (shareholders.) C corporations are taxed on their earnings and the shareholders are taxed on these earnings when distributed as dividends. For more information, get the Form 100, Corporation Tax Booklet.
- An S corporation is a hybrid business entity. It is a separate legal entity and generally offers liability protection to its owners (shareholders.) An S corporation must elect to be treated as an S corporation. The

S corporation pays a reduced tax rate of 1.5% on its net income. The profits and losses from the S corporation pass-through to each shareholder through the Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc., and each shareholder is responsible for paying taxes on their distributive share. California taxpayers wishing to elect to be treated as an S corporation should get the Form 100S Booklet for more information.

- For taxable years beginning on or after January 1, 2006, a controlled foreign corporation (CFC) that has U.S. source income cannot exclude its Subpart F income from a water's-edge return. Corporations are now required to include in a water's-edge combined report both U.S. source income and Subpart F of a CFC regardless of whether the CFC is a California taxpayer.
- For taxable years beginning on or after January 1, 2006, a corporation may file a group nonresident return on behalf of certain nonresident individuals who receive wages, salaries, fees, or other compensation from that corporation for director services performed in California, including attendance of board of directors' meetings in California. Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.
- Use form FTB 3725, Assets Transferred from Parent Corporation to Insurance Company, to report assets transferred from a parent corporation to an insurance company subsidiary. Get form FTB 3725 for more information.
- For transactions occurring on or after January 1, 2007, that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3 percent of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the FTB. For real estate installment sales, if a buyer receives seller's certification as to an alternative withholding election, the buyer would be required to withhold either the full alternative withholding amount at the time of sale or an alternative withholding percentage on the amount of each installment payment.
- Corporations with total assets of \$10 million or more must complete the California Schedule M-1, and attach a copy of the federal Schedule M-3 (Form 1120). For more information, see Schedule M-1 instructions.
- R&TC Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" of qualified dividends received from an insurer subsidiary. See Schedule H (100W) instructions for more information.
- In *Farmer Bros. Co. vs. Franchise Tax Board* (2003) 108 Cal App 4th 976, 134 Cal Rptr. 2d 390, the California Court of Appeal found R&TC Section 24402 to be unconstitutional. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.
- For taxable years beginning on or after January 1, 2003, corporate shareholders of

a Regulated Investment Company (RIC) are explicitly denied a dividend deduction for earnings from the RIC that are not from stock dividends.

- R&TC Sections 17024.5 and 23051.5 have been amended to clarify that, unless otherwise expressly allowed, federal elections made before a taxpayer becomes a California taxpayer are binding for California tax purposes.
- R&TC Section 18662 requires buyers to withhold income taxes when purchasing California real property from corporate sellers with no permanent place of business in California immediately after the transfer. For more information, get FTB Pub. 1016, Real Estate Withholding Guidelines.

Sellers of California real estate must attach Copy B of Form 593, Real Estate Withholding Tax Statement, to their tax return as proof of withholding.

If the corporation needs to verify withholding payments, the corporation may call Withholding Services and Compliance at (916) 845-4900 or toll-free (888) 792-4900.

- For the purposes of determining the correct amount of tax for water's-edge electors, a presumption of correctness attaches to all federal determinations, including determinations made at the audit, appeals, and/or competent authority levels.

California law conforms to federal law for:

- For taxable years beginning on or after January 1, 2005, corporations may elect to expense under IRC Section 179 part or all of the cost of certain properties placed in service during the taxable year and used in the trade or business. For more information, see form FTB 3885, Corporation Depreciation and Amortization, in this booklet.
- Large banks' bad-debt losses deduction, which is limited to the actual losses rather than contributions to a reserve for bad debts.
- Alternative Minimum Tax (AMT) treatment of contributions of appreciated property.
- Disallowing the deduction for club membership fees and lobbying expenses.
- Disallowing the deduction for employee remuneration in excess of \$1 million.
- Shrinkage Estimates for Inventory Accounting. For purposes of inventory accounting, an adjustment for shrinkage, based on an estimate, may be made. Taxpayers can voluntarily change their method of accounting if the method currently being used does not utilize estimates of inventory shrinkage and the taxpayer now wishes to use that method.
- Required recognition of gain on certain appreciated financial positions in personal property.
- Election of mark-to-market for securities and commodities traders. Allows securities traders and commodities traders and dealers to elect to use mark-to-market accounting similar to what is currently required for securities dealers. Commodities would include only commodities of a kind that are dealt with in the organized commodities exchange. An election to use the mark-to-market method for federal purposes is considered an election for state purposes and a separate election is not allowed.
- Limitation on exception for investment companies under IRC Section 351.
- Expansion of deduction for certain interest and premiums paid for company-owned life insurance.

- Modification of holding period applicable to dividends received deduction.
- Repeal of special installment sales rule for manufacturers of tangible personal property.
- Payment of estimated tax for closely held real estate investment trusts (REIT) and income and services provided by REIT subsidiaries.

California law does not conform to federal law for:

- Expensing of Environmental Remediation Costs. Certain environmental remediation expenditures that would otherwise be chargeable to capital accounts may be expensed and taken as a deduction in the year the expense was paid or incurred.
- Deduction for corporate donation of scientific property and computer technology.
- The additional 30% or 50% first-year depreciation allowance for qualified property.
- The first-year depreciation deduction allowed for luxury autos or certain passenger automobiles.
- Decreased capital gains tax rate.
- Exemption from AMT for small corporations.
- Accelerated depreciation for property on Indian Reservations.
- The treatment of Subpart F and Section 936 income.
- The temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil and gas property.

The above lists are not intended to be all-inclusive of the federal and state conformities and differences. For additional information, refer to the California R&TC.

California Taxpayers that are 25% Foreign-Owned U.S. Corporations and Foreign Corporations

Corporations that are required to file federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, with the federal return must attach a copy(ies) to the California return. The penalty for failing to include a copy of federal Form(s) 5472 as required is \$10,000 per form. See General Information M, Penalties, for more information.

Information Return for U.S. Taxpayers Who Have Ownership (Directly or Indirectly) in a Foreign Corporation

For taxable years beginning on or after January 1, 1997, U.S. taxpayers who have an ownership interest (directly or indirectly) in a foreign corporation and are required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failing to include a copy of federal Form(s) 5471 as required is \$1,000 per form. See General Information M, Penalties, for more information.

Records Maintenance Requirements

Any taxpayer filing on a worldwide or a water's-edge basis is required to keep and maintain records and make the following available upon request:

- Any records needed to determine the correct treatment of items reported on the water's-edge combined report for purposes

of determining the income attributable to California.

- Any records needed to determine the treatment of items as nonbusiness or business income.
- Any records needed to determine the apportionment factors.
- Documents and information needed to determine the proper attribution of income to the U.S. or foreign jurisdictions under IRC Subpart F, IRC Section 882, or other similar provisions of the IRC.

See R&TC Section 19141.6 and the related regulations for more information. A corporation may be required to authorize an agent, through a Power of Attorney, to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504. For more information go to our website at ftb.ca.gov and search for **power of attorney**.

The penalty for not maintaining the above required records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the corporation of the failure, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed. See General Information M, Penalties, for more information.

Small Business Stock

For taxable years beginning on or after January 1, 1996, corporations that issue stock intended to be qualified small business stock pursuant to R&TC Section 18152.5 are required to attach form FTB 3565, Small Business Stock Questionnaire, to Form 100W.

Classification of Certain Business Trusts and Certain Foreign Single Member Limited Liability Companies (SMLLCs)

Normally, the classification of a business entity should be the same for California purposes as it is for federal purposes. However, an exception may apply for certain eligible business entities (business trusts and SMLLCs) existing prior to January 1, 1997, that were taxed as corporations for California purposes under former R&TC Section 23038. For taxable years beginning on or after January 1, 1997, a business trust or a previously existing foreign SMLLC may make an irrevocable election to be classified the same as federal for California purposes. To make the election the business trust or the SMLLC must have been classified as a corporation under California law, but classified as a partnership (for a business trust) or elected to be treated as a disregarded entity (for SMLLC) for federal tax purposes for taxable years beginning before January 1, 1997. If this election is not made, the existing eligible business entity will continue to be classified and taxed as a corporation for California purposes. Get form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, for more information.

General Information

When completing the tax return

- Use black or blue ballpoint pen on the copy of the tax return sent to the FTB.
- Print name and address in CAPITAL LETTERS.
- Round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25.
- Send a clean legible copy.

- When making a payment with a check or money order, enclose, but do **not** staple, payment to the face of the tax return.
- Assemble the corporation return in the following order: Form 100W, Schedule R (if required), supporting schedules, and a copy of federal return (if required). Do **not** use staples or other permanent bindings to assemble the tax return.

A Franchise or Income Tax

Corporation franchise tax

Entities subject to the corporation minimum franchise tax include all corporations (e.g. LLCs electing to be taxed as corporations) that meet any of the following:

- Incorporated or organized in California.
- Qualified or registered to do business in California.
- Doing business in California, whether or not incorporated, organized, qualified, or registered under California law.

The minimum franchise tax must be paid by corporations incorporated in California or qualified or registered under California law whether the corporation is active, inactive, not doing business, or operates at a loss.

The measured franchise tax is imposed on corporations doing business in California and is measured by the net income of the current taxable year for the privilege of doing business in that taxable year.

The term “doing business” means actively engaging in any transaction for the purpose of financial gain or profit.

A corporation incorporated in California, but not doing business in this state, is not subject to the measured franchise tax. In the case of a corporation incorporated in California or qualified with the California Secretary of State (SOS), but not doing business in this state, careful attention should be given to the term “doing business.” It is not necessary that the corporation conducts business or engages in transactions within the state on a regular basis. Even an isolated transaction during the year may be enough to cause the corporation to be “doing business.”

Also, when a corporation is either a general partner of a partnership or a member of an LLC that is “doing business” in California, the corporation is considered to be “doing business” in California.

Corporation income tax

The corporation income tax is imposed on all corporations that derive income from sources within California but are not doing business in California.

For purposes of the corporation income tax, the term “corporation” generally includes the following:

- Associations.
- Massachusetts or business trusts.
- REITs.
- LLCs electing to be taxed as corporations other than those subject to the corporate franchise tax.
- Other business entities, including partnerships, electing to be taxed as corporations.

Get FTB Pub. 1063, California Corporation Tax Law — A Guide for Corporations, for more information.

B Tax Rates

The tax rates below apply to corporations subject to either the corporation franchise tax or the corporation income tax.

- Corporations other than banks and financial corporations 8.84%
- Banks and financial corporations 10.84%

C Minimum Franchise Tax

All corporations subject to the franchise tax, including banks, financial corporations, corporate general partners of partnerships, and corporate members of LLCs doing business in California, must file Form 100, Corporation Franchise or Income Tax Return, or Form 100W and pay at least the minimum franchise tax as required by law. The minimum franchise tax, as indicated below, must be paid whether the corporation is active, inactive, operates at a loss, or files a return for a short period of less than 12 months.

- Domestic qualified inactive gold or quicksilver mining corporations \$25
- All other corporations subject to franchise tax (see General Information A, Franchise or Income Tax, for definitions). \$800

A combined group filing a single return must pay at least the minimum franchise tax for each corporation in the group that is subject to franchise tax.

The prepayment of the minimum franchise tax to the California SOS is no longer required for corporations that incorporate or qualify through the California SOS to do business in California on or after January 1, 2000. For the first taxable year the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to corporations that are not qualified by the California SOS, or reorganize solely to avoid payment of their minimum franchise tax.

There is no minimum franchise tax for the following entities:

- Credit unions.
- Corporations that are not incorporated in California, not qualified under the laws of California, or are not doing business in California even though they derive income from California sources. For more information regarding “doing business,” get FTB Pub. 1050, Application and Interpretation of Public Law 86-272; FTB Pub. 1060, Guide for Corporations Starting Business in California, or FTB Pub. 1063.
- Corporations that are not incorporated under the laws of California; whose sole activities in this state are engaging in convention and trade show activities for seven or fewer days during the taxable year; and that do not derive more than \$10,000 of gross income reportable to California during the taxable year. These corporations are not “doing business” in California. For more information, get FTB Pub. 1060 or FTB Pub. 1063.
- Newly formed or qualified corporations filing an initial return for taxable years beginning on or after January 1, 2000.

D Accounting Period/Method

The taxable year of a corporation must not be different from the taxable year used for federal purposes, unless initiated or approved by the FTB (R&TC Section 24632).

A change in accounting method requires consent from the FTB. However, a corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to change its accounting method without prior approval and does so, is deemed to have the FTB’s approval if: (1) the corporation files a timely Form 100W consistent with the change for the first year the change becomes effective for federal purposes, and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change must be attached to Form 100W for the first year the change becomes effective. Get FTB Notice 2000-8 for more information. The FTB may modify a requested change if the change would distort income for California purposes.

California is not following the automatic consent procedure for a change of accounting method involving previously unclaimed allowable depreciation or amortization prescribed by federal Revenue Procedure 96-31. Get FTB Notice 6-3 for more information.

E When to File

File Form 100W on or before the 15th day of the 3rd month after the close of the taxable year unless the return is for a short-period as required under R&TC Section 24634. Generally, the due date of a short-period return is the same as the due date of the federal short-period return. See R&TC Section 18601(c) for the due date of a short-period return.

When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.

See General Information O, Dissolution/Withdrawal, and P, Ceasing Business, for information on final returns.

A corporation that converts to another type of entity, such as a limited liability company or limited partnership, must file two California returns. The converted entity is required to file a short-period return for the taxable year ending on the date of cancellation. The new entity would then be subject to all of the filing requirements and tax obligations for that new entity from the date of conversion.

F Extension of Time to File

If the corporation cannot file its California return by the 15th day of the 3rd month after the close of the taxable year, it may file on or before the 15th day of the 10th month without filing a written request for an extension unless the corporation is suspended on the original due date. This does not extend the time for payment of tax; the full amount of tax must be paid by the original due date of Form 100W. If there is an unpaid tax liability, complete form FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs, included in this booklet, and send it with the payment by the original due date of the Form 100W.

When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.

If the corporation must pay its tax liability using electronic funds transfer (EFT), **all** payments **must** be remitted by EFT to avoid the EFT penalty. Do not send form FTB 3539.

G Electronic Funds Transfer (EFT)

Corporations that meet certain requirements must remit all of their payments through EFT rather than by paper checks to avoid the 10% non-compliance EFT penalty. Corporations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 must remit all of their payments through EFT. The FTB notifies corporations that are subject to this requirement. Those that do not meet these requirements and wish to participate on a voluntary basis may do so. If the corporation is an EFT taxpayer, complete the form FTB 3539 worksheet for its records. **DO NOT SEND THE PAYMENT VOUCHER.** For more information, go to our website at ftb.ca.gov and search for EFT, call (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

H Where to File

PAYMENTS

If a tax is due and the corporation is not required to EFT,

- Mail Form 100W with **payment to:**
FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0501
- e-filed returns: Mail form FTB 3586, Payment Voucher for **Corp** e-filed Returns, with **payment to:**
FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0531

Make the check or money order payable to the **"Franchise Tax Board."** Write the California Corporation number and "2008 Form 100W" on the check or money order.

Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

REFUNDS

- Mail Form 100W requesting a **refund to:**
FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0502

RETURN WITHOUT PAYMENT or PAID by EFT

- Mail Form 100W **without a payment or paid by EFT to**
FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See federal Form 1120, U.S. Corporation Income Tax Return, for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

Private Mail Box

Include the Private Mail Box (PMB) in the address field. Write "PMB" first, then the box number. Example: 111 Main Street PMB 123.

I Net Income Computation

The computation of net income from trade or business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100W. There are two ways to complete Form 100W, the federal reconciliation method or the California computation method:

1. Federal reconciliation method

- a. Transfer the information from the federal Form 1120, page 1, to Form 100W, Schedule F and attach a copy of the federal return with all pertinent supporting schedules.
- b. Enter the amount of federal ordinary income (loss) from trade or business activities before any NOL and special deductions on Form 100W, Side 1, line 1.
- c. Enter state adjustments on line 2 through line 17 to arrive at net income after state adjustments, Side 1, line 18.

2. Schedule F – California computation method

If the corporation has no federal filing requirement or if the corporation maintains separate records for state purposes, complete Form 100W, Side 3, Schedule F, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 29, to Side 1, line 1. Complete Form 100W, Side 1, line 2 through line 17, only if applicable.

For more information, see the specific line instructions.

Regardless of the net income computation method used, the corporation must attach any form, schedule, or supporting document referred to on the return, schedules, or forms filed with the FTB.

J Alternative Minimum Tax (AMT)

Corporations that claim certain types of deductions, exclusions, and credits may be subject to California AMT. Generally, corporations that complete federal Form 4626, Alternative Minimum Tax — Corporations, also must complete California Schedule P (100W), Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers. See Schedule P (100W), included in this booklet, for more information.

K Estimated Tax

Every corporation must pay estimated tax using Form 100-ES, Corporation Estimated Tax. Estimated tax is generally due and payable in four installments as follows:

- The 1st payment is due by the 15th day of the 4th month of the taxable year (this payment may not be less than the minimum franchise tax, if applicable).
- The 2nd, 3rd, and 4th installments are due and payable by the 15th day of the 6th, 9th, and 12th months respectively, of the taxable year.

If no amount is due, **DO NOT** mail Form 100-ES.

California law has conformed to the federal expanded annualization periods for the computation of estimate payments. For taxable years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

Get the instructions for Form 100-ES for more information.

For taxable years beginning on or after January 1, 2006, California conformed to the federal tax law in excluding the annual payments of the LIFO recapture tax from the computation of "estimated tax."

If the corporation must pay its tax liability using EFT, **ALL** estimate payments due **must** be remitted by EFT to avoid the EFT penalty.

L Commencing Corporations

For taxable years beginning on or after January 1, 2000, no prepayment to the California SOS is required and the corporation is required to pay measured tax instead of minimum tax for the first taxable year if the corporation incorporated or registered through the California SOS. For more information see General Information C, Minimum Franchise Tax, or get FTB Pub. 1060.

M Penalties

Failure to file a timely return

Any corporation that fails to file Form 100W on or before the extended due date is assessed a delinquent filing penalty. The delinquent filing penalty is computed at 5% of the tax due, after allowing for timely payments, for every month that the return is late, up to a maximum of 25%. If a corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return. See R&TC Section 19131 for more information.

Failure to pay total tax by the due date

Any corporation that fails to pay the total tax shown on Form 100W by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months), the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax. See R&TC Section 19132 for more information.

The late payment penalty may be waived where 90% of the tax shown on the return, but not less than minimum franchise tax if applicable, is paid by the original due date of the return.

If a corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be assessed, but the total penalty may not exceed 25% of the unpaid tax.

Underpayment of estimated tax

Any corporation that fails to pay, pays late, or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment for the underpayment period. Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

The underpayment of estimated tax penalty shall not apply to the extent the underpayment of an installment was created or increased by any provision of law that is chaptered during and operative for the taxable year of the underpayment.

See R&TC Sections 19142, 19144, 19145, 19147, 19148, 19149, 19150, 19151, and 19161 for more information.

If the corporation uses Exception B or Exception C to compute or eliminate any of the four installments, form FTB 5806 must be attached to **the front of** Form 100W and the box on Side 2, line 41b should be checked.

EFT Penalty

If the corporation must pay its tax liability using EFT, **ALL** payments **must** be remitted by EFT to avoid the EFT penalty. The EFT penalty is 10% of the amount not paid by EFT. See R&TC Section 19011 and General Information G, Electronic Funds Transfer (EFT), for more information.

Information reporting penalties

For taxable years beginning on or after January 1, 1997, U.S. corporations that have an ownership interest (directly or indirectly) in a foreign corporation and were required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failure to include a copy of federal Form(s) 5471, as required, is \$1,000 per required form for each year the failure occurs. The penalty applies for taxable years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(ies) of federal Form 5471 to all returns filed for subsequent years.

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100W. The penalty for failing to include a copy of federal Form(s) 5472 as required, is \$10,000 per required form for each year the failure occurs. See R&TC Section 19141.5 for more information.

If the corporation does not file its Form 100W by the due date or extended due date, whichever is later, copy(ies) of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copy(ies) indicating the taxpayer's name, California corporation number, and taxable year. Mail to the same address used for returns without payments. See General Information H, Where to File. When the corporation files Form 100W, also attach copy(ies) of the federal Form(s) 5472.

Record maintenance penalty

The penalty for failure to maintain certain records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the corporation of the failure, in general, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed.

See "Important Information" starting on page 3 for a discussion of the records required to be maintained. See R&TC Section 19141.6 and the regulations thereunder for more information.

Accuracy and fraud related penalties

California conforms to IRC Sections 6662 through 6665 that authorize the imposition of

an accuracy-related penalty equal to 20% of the related underpayment, and the imposition of a fraud penalty equal to 75% of the related underpayment. See R&TC Section 19164 for more information.

California Secretary of State (SOS) penalty

The California Corporations Code requires the FTB to assess a penalty for failure to file an annual Statement of Information with the California SOS. For more information, see R&TC Section 19141, or contact:

STATEMENT OF INFORMATION UNIT
ATTENTION: PENALTY
CALIFORNIA SECRETARY OF STATE
PO BOX 944230
SACRAMENTO CA 94244-2300
Telephone: (916) 657-3537

Other penalties

Other penalties may be imposed for a payment returned for insufficient funds, non-U.S. foreign corporations operating while forfeited or without qualifying to do business in California, and domestic corporations operating while suspended in California. See R&TC Sections 19134 and 19135 for more information.

N Interest

Interest is due and payable on any tax due if not paid by the original due date of Form 100W. Interest is also due on some penalties. The automatic extension of time to file Form 100W does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Business Entity Refund/Billing Information, for more information.

O Dissolution/Withdrawal

The corporation must fill in the applicable box on Form 100W, Side 1, question A, if dissolving, merging or withdrawing. The date should be the date the corporation filed with the California SOS.

The franchise tax for the period in which the corporation formally dissolves or withdraws is measured by the income of the year in which it ceased doing business in California, unless such income has already been taxed at the rate prescribed for the taxable year of dissolution or withdrawal.

A corporation that commenced doing business in California before January 1, 1972, is allowed a credit that may be refunded in the year of dissolution or withdrawal. The amount of the refundable credit is the difference between the minimum franchise tax for the corporation's first full 12 months of doing business and the total tax paid for the same period.

To claim this credit, add this amount to the value on line 35. Make a notation to the right of Side 1, line 35: "Dissolving/Withdrawing."

The return for the final taxable period is due on or before the 15th day of the 3rd full month after the month during which the corporation **formally dissolved or withdrew**.

Corporations are subject to income tax or franchise tax for the final taxable period. Corporations that file a final franchise tax return must pay at least the minimum franchise tax as specified in R&TC Section 23153.

For taxable years beginning on or after January 1, 2006, the minimum franchise tax will not be assessed after the taxable year the final tax return is filed, if a corporation meets all of the following requirements:

- The corporation files a timely **final** franchise tax return for the preceding taxable year, including extension.
- The corporation did not do business in California after the final taxable year.
- The corporation files the appropriate documents for dissolution with the California SOS within 12 months of the timely filed **Final Franchise Tax** return.

To get samples and forms for filing a dissolution, surrender, or merger agreement, go to the California SOS website at **sos.ca.gov** and search for **corporation dissolution**. Or address your request to:

LEGAL REVIEW
CALIFORNIA SECRETARY OF STATE
1500 11TH ST 3RD FLOOR
SACRAMENTO CA 95814-5701
Telephone: (916) 657-5448

P Ceasing Business

For taxable years beginning on or after January 1, 2000 (other than the first taxable year beginning on or after that date), the tax for the final year in which the corporation does business in California is determined according to or measured by its net income for the taxable year during which the corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum franchise tax.

For more information, see R&TC Section 23151.1.

The unreported income on installment obligations, the distribution of notes, and the distribution of corporate assets (i.e. land, buildings) at a gain must be included in income in the year of cessation. There is no federal law counterpart regarding this issue.

For more information, see R&TC Sections 24672 and 24451.

A domestic or qualified corporation will remain subject to the minimum franchise tax for each year it is in existence until a certificate of dissolution (and certificate of winding up, if necessary), or certificate of withdrawal is filed with the California SOS. See General Information O, Dissolution/Withdrawal, and R&TC Sections 23331 through 23335 for more information.

Q Suspension/Forfeiture

If a corporation does not file a Form 100W and/or does not pay any tax, penalty, or interest due, its powers, rights, and privileges may be suspended (in the case of a domestic corporation) or forfeited (in the case of a foreign corporation).

Corporations that operate while suspended or forfeited are subject to a \$2,000 penalty, which is in addition to any tax, penalties, and interest already accrued. Also, any contracts entered into during suspension or forfeiture are voidable at the request of any party to the contract other than the suspended or forfeited corporation.

Such contracts will remain voidable and unenforceable unless the corporation applies for relief from contract voidability and the FTB grants relief.

See R&TC Sections 19135, 19719, 23301, 23305.1, and 23305.2 for more information.

R Apportionment of Income

Corporations with business income attributable to sources both within and outside of California are required to apportion such income. Use

Schedule R to calculate the apportionment percentage. Be sure to answer Question M on Form 100W, Side 2.

For more information, see R&TC Sections 25120 through 25136.

S Combined Report

If two or more corporations are engaged in a unitary business and derive income from sources within and outside of California, the members of the unitary group that are subject to California's franchise or income tax are required to apportion the combined income of the entire unitary group in order to compute the measure of the tax.

If the income of a unitary group is derived wholly from California sources, its members may either file returns on a separate accounting basis or file on a combined report basis.

Members of a unitary group may elect to file a group single return by filing Schedule R-7, Election to File a Unitary Taxpayers' Group Return, and List of Affiliated Corporations. For more information, get Schedule R.

Attach the Schedule R behind the Form 100W and prior to the supporting schedules.

A combined unitary group's single return must present the group's data stated separately for each corporation, as well as totals for the combined group.

The total combined tax, which must include at least the minimum franchise tax for each corporation subject to the franchise tax, must be shown on Form 100W, Side 1, line 24.

For more information, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

T Water's-Edge Reporting

Water's-Edge Combined Report

Entities Included

The water's-edge combined report includes only the income and apportionment factors of the members of the unitary group that meet the criteria set forth in R&TC Section 25110, as summarized below. If an entity meets any one of these criteria **and** is unitary, it must be included in the combined report. If an entity does not meet any of these criteria, it must be excluded from the combined report.

1. Any domestic international sales corporation, as defined in IRC Section 992, and any foreign sales corporation, as defined in IRC Section 922.
2. Any corporation, regardless of where it is incorporated, if the average of its property, payroll, and sales factors within the U.S. is 20% or more. This rule does not apply to foreign incorporated banks. R&TC Section 25128, requiring the double weighting of the sales factor, does not apply for purposes of this inclusion test. For more information, get FTB Legal Ruling 95-5.
3. Any corporation incorporated in the U.S., more than 50% of whose stock is owned or controlled directly or indirectly by the same interests, except for corporations making an election under IRC Section 936.
4. Any export trade corporation as defined in IRC Section 971.
5. Any controlled foreign corporation (CFC), as defined in IRC Section 957, that has Subpart F income as defined in IRC Section 952. The income and apportionment factors of such

corporation are included in the combined report based on the ratio of the total Subpart F income of such entity for the year to its current year earnings and profits (E&P). The ratio cannot exceed 100% or be less than 0%. If the current year E&P are zero or less, none of the income and factors of the entity are included in the combined report. Subpart F income defined in IRC Sections 955, 956, and 956A, is not considered in the computation.

6. Any corporation not described in items 1 through 5 with less than 20% of its average property, payroll, and sales in the U.S., or any foreign organized bank that has income attributable to sources within the U.S. Such entities are included in the combined report only to the extent of their U.S. located income and factors. In general, U.S. located income includes effectively connected income (ECI) with U.S. trade or business, or is treated as effectively connected, under the provisions of the IRC. Because California is not a party to the federal tax treaties, the ECI immunity provisions of the federal tax treaties do not apply for California purposes. Any income satisfying the definition of ECI, that is excluded from federal taxable income due to a tax treaty, is included for California purposes.

If a corporation meets the inclusion criteria under both items 5 and 6 above, it must include both sources of income in the water's-edge combined report. A CFC cannot exclude its "Subpart F" income from the water's-edge combined report, even if it is a California taxpayer or has income from a U.S. source.

For more information, see R&TC Section 25110(a) and the regulations thereunder.

However, a taxpayer that is filing on a water's-edge basis for one or more lines of business should use Form 100W even though that taxpayer may also have one or more lines of business that are not on a water's-edge basis.

Intercompany Transactions Occurring On Or After January 1, 2001

Cal. Code Regs., tit. 18 section 25106.5-1 provides detailed rules relating to the treatment of intercompany transactions between members of a combined reporting group. These regulations apply to all intercompany transactions that occur on or after January 1, 2001. In general, the regulations adopt the treatment of intercompany transactions applicable for federal consolidated return purposes.

For more information, see Cal. Code Regs., tit. 18 section 25106.5-1, and FTB Pub. 1061. In addition, taxpayers may wish to review the federal consolidated return treatment of intercompany transactions as prescribed by Treas. Reg. Section 1.1502-13.

Intercompany Transactions Occurring Before January 1, 2001

Intercompany transactions that occurred prior to January 1, 2001, are treated as follows:

1. If a combined group has deferred gain or loss from intercompany transactions, a water's-edge election under R&TC Section 25111 will cause certain previously deferred gains or losses to be taxed over a 60-month period beginning with the first day of the election period. This applies only to transactions where either the transferee, the transferor, or both, are to be excluded from a combined report by reason of the water's-edge election. It does not apply if both the transferor and the

transferee are included in the water's-edge combination.

2. Generally, such gains or losses will be apportioned using the percentage used in the last worldwide combined report that preceded the first water's-edge year. FTB Notice 89-601 provides that the percentage in the year of the original transaction can be used in certain circumstances.

The deferral method referred to in FTB Notice 89-601 applies to intercompany transactions involving fixed assets and capitalized items only. Certain other types of intercompany transactions, including intercompany sales of inventory and intangible assets, must be reported under the elimination/carryover basis method. When members of a combined group use the elimination/carryover basis method, the transferor's basis will carry over to the transferee.

A subsequent water's-edge election will have no effect on the recognition of profit under this method. Any profit eliminated as a result of using this method would be recognized by the transferee when the asset is sold outside the combined reporting group.

Water's-Edge Election

For taxable years beginning on or after January 1, 2003, the provisions for making a water's-edge election have changed substantially. The new procedures replace the contract with a statutory election, which continues to be made for an 84 month period. The statutory election must be made on a timely filed original return for the year of the election. The new law, R&TC Section 25113:

- Codifies the "substantial performance" concept currently in the regulations to prevent taxpayers that inadvertently fail to satisfy a procedural aspect of the election from losing their water's-edge status.
- Reforms the acquisition rules so that a water's-edge taxpayer would no longer automatically "taint" other non-electing affiliates with which it becomes unitary. Instead, when two or more taxpayers become unitary, the status of the larger taxpayer would prevail.
- Eliminates the automatic renewal provisions. The taxpayer elects for an initial 84 month period and the election remains in place thereafter until terminated.

To make a water's-edge election under R&TC Section 25113, a corporation must:

- Compute the corporation's income on a water's-edge basis.
- Use Form 100W.
- Attach Form 100-WE, Water's-Edge Election, to the timely filed original return for the year of the election.

To file on a water's-edge basis, the corporation must do all of the following:

- File on a water's-edge basis for a period of 84 months.
- Agree to business income treatment of dividends received from any of the following:
 1. Over 50% owned entities engaged in the same general line of business as the members of the water's-edge group.
 2. Entities that are a significant source of supply to, or a significant purchaser of, the output of the members of the water's-edge group. Significant means an amount equal to 15% or more.

- Consent to the taking of depositions from key employees or officers of the members of the water's-edge group and to the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

For more information, see R&TC Sections 25110(b), 25111, 25113, and the regulations thereunder.

Taxpayers Covered by an Election

For an election to be effective, all affiliated taxpayers engaged in a single unitary business must file on a water's-edge basis. A taxpayer or an affiliated group of taxpayers that is engaged in more than one unitary business may make a water's-edge election with respect to any one or more of its businesses, but need not elect for all of its businesses. For example, a taxpayer engaged in two unitary businesses may elect water's-edge for one of the businesses and may remain subject to worldwide combined reporting treatment for the other business.

The common parent of a controlled group that files a consolidated federal return, or the common parent wherever domiciled or organized, may file an election on behalf of all members of the controlled group that are part of the water's-edge combined report group. The common parent need not be a California taxpayer. An election made on a group return of a self-assessed combined reporting group shall constitute an election by each taxpayer member included in that group return. An election by a common parent supersedes any inconsistent position taken by a member of the combined reporting group.

In cases where the water's-edge election is not entered into by a common parent, each taxpayer included in the combined report must enter into a separate election.

Time of Making the Election

The election must be made by all unitary taxpayers, included in the combined report, on a timely filed original return for the year of the election. Use Form 100-WE to make the election. The completed Form 100-WE should be attached to the timely filed original return Form 100W. A copy of the original election must be attached to all subsequent returns filed during the election period.

Taxpayers that have a valid election for taxable years beginning before January 1, 2003, will continue to file on a water's-edge basis and will be deemed to have elected under the new rules (R&TC Section 25113) for taxable years beginning on or after January 1, 2003. However, the election start date under the new rules (R&TC Section 25113) will continue to be the start date as originally elected under the old rules (R&TC Section 25111.)

The election must be made on a timely filed original return. See R&TC Section 25113.

Taxpayers with Different Fiscal Year Ends

Taxpayers engaged in a unitary business with different fiscal year ends will make the election on each individual return. For each member of the group, the election period will begin on the first day of the taxable year of the last member of the water's-edge group to file its return and make the election. Each taxpayer that has a taxable year beginning earlier than the last member of the group will compute its tax liability on its initial return using a hybrid worldwide/water's-edge combination method.

Effect of Changes in Affiliation

If a corporation that is subject to California tax becomes a member of a water's-edge group, or

if a unitary affiliate of an electing water's-edge group becomes subject to California tax after the election, it is deemed to have elected also and is bound by the original election. When a taxpayer ceases to be a member of the water's-edge group, the taxpayer must continue to file on a water's-edge basis.

If an electing taxpayer is acquired by a nonelecting taxpayer and becomes a member of a new affiliated group, then the filing method, worldwide or water's-edge, would be determined by reference to the larger taxpayer group. The larger taxpayer group is determined by comparing the value of the total business assets of the electing taxpayer and its component unitary group to the value of the total business assets of the nonelecting taxpayer and its component unitary group.

If a water's-edge taxpayer meets certain criteria, it may automatically obtain termination of the water's-edge election or it may request termination of its water's-edge election. See "Termination of Election" below.

A non-electing corporation that is subsequently proven to be unitary with a water's-edge group pursuant to an audit determination of the FTB is deemed to have made a water's-edge election.

When an affiliation change occurs, a statement should be attached to the return identifying which affiliates were included in the original group, the appropriate California Corporation numbers, and what changes have occurred.

For more information, see R&TC Section 25113 and FTB Notice 2004-2.

Termination of Election

Once a valid water's-edge election is made, the election remains in place until it is terminated.

Termination After Expiration of the Initial 84 Month Period

The taxpayer has the option to terminate its water's-edge election after the initial 84 month period. This termination does not require the FTB's consent. The termination must be made on an original, timely filed return for the first year in which the water's-edge election is to be terminated.

To terminate the corporation's water's-edge election after the 84 month period do all of the following:

- Compute the corporation's income on a worldwide basis.
- Use Form 100.
- Attach a statement to the Form 100, explaining that the corporation is terminating its water's-edge election. Provide the name of any taxpayer that was bound by the water's-edge election.

If a taxpayer terminates its election and returns to filing on a worldwide basis, then the taxpayer must file on a worldwide basis for at least 84 months before making another water's-edge election. However, the FTB may waive application of this rule for good cause. Good cause for these purposes has the same meaning as described in Treas. Reg. Section 1.1502-75(c).

Termination Before Expiration of the Initial 84 Month Period

Termination Caused by Affiliation Change – In the case of an affiliation change, as discussed above in "Effect of Changes in Affiliation," if an electing water's-edge taxpayer becomes a member of a larger, nonelecting taxpayer group, then the taxpayer's water's-edge election is automatically terminated. The termination is effective at the

time the electing taxpayer becomes part of the combined report of the larger, nonelecting taxpayer group. It is not necessary to file a form FTB 1117, Request to Terminate Water's-Edge Election.

Termination by the FTB's Consent – An electing taxpayer may request the FTB's consent to terminate the water's-edge election for good cause or to permit the state to contract with an expatriate corporation, or its subsidiary pursuant to Public Contract Code Section 10286.1(b)(2) prior to the expiration of the 84 month period. Good cause for these purposes has the same meaning as described in Treas. Reg. Section 1.1502-75(c).

If a taxpayer is granted termination and returns to filing on a worldwide basis, then the taxpayer must file on a worldwide basis for at least 84 months before making another water's-edge election. However, the FTB may waive the application of this rule for good cause.

To request termination of a water's-edge election, the corporation must timely file form FTB 1117 **separately from any other form**. Mail form FTB 1117 to:

FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

For more information, see R&TC Section 25113 and FTB Notice 2004-2.

Request for Consent for a Water's-Edge Re-Election

Use form FTB 1115, Request for Consent for a Water's-Edge Re-Election, ~~is used~~ to request the FTB's consent to re-elect water's-edge prior to the expiration of the 84 month period following the last day of the terminated election, for good cause as provided in R&TC Section 25113 (c) (11). See form FTB 1115 instructions for ~~additional~~ information.

U Amended Return

To correct or change a previously filed Form 100W, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. File Form 100X within six months after the corporation filed an amended federal return or after a final federal determination, if the IRS examined and changed the corporation's federal return.

V Information Returns

Every corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns to report the amount of such payments.

Payments that must be reported include, but are not limited to the following:

- Payments exceeding \$600 annually for compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties, legal services whether or not the payee is incorporated, interest (such as interest charged for late payment), and pensions.
- Payments exceeding \$10 annually for interest earned and dividends.
- All payment amounts made by a broker or barter exchange.
- All payment amounts for gross proceeds paid to an attorney whether or not the services are performed for the payer.

- Cash payments over \$10,000 received in a trade or business.

See instructions for federal Forms 1099 (series), 1098, 5498, and W-2-G; federal Publication 1220, Specifications for Filing Forms 1098, 1099, 5498 and W-2-G Electronically or Magnetically; form FTB 4227A, Guide to Information Returns Filed With California; and form FTB 8305, Reporting Requirements for Forms 1098, 1099, 5498, and W-2-G.

Report payments to the FTB and the IRS using the appropriate federal form. Reports must be made for the calendar year. Federal Forms 1099 (series), 1098, and W-2-G's are due no later than February 28th and federal Form 5498 is due by May 30th of the year following payment. When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day. Federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, is due within 15 days after the date of the transaction.

California requires corporations to report to the FTB, interest paid on municipal bonds held by California taxpayers and issued by a state other than California, or a municipality other than a California municipality. Entities paying interest to California residents on these types of bonds are required to report interest payments aggregating \$10 or more and paid after January 1, 2008. These information returns will be due June 1, 2009. For more information, get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information.

California conforms to the information reporting requirements imposed under IRC Sections 6038 through 6038C. Any federal Forms 5471, 5472, or 926 required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. These federal information returns should be attached to the Form 100W when filed. If these information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

W Net Operating Loss (NOL)

~~For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations, in this booklet.~~

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by corporations.

NOL carryovers incurred prior to the water's-edge election are limited to the amount of NOL carryover that the taxpayer would have incurred if a water's-edge election had been in effect in the loss year.

R&TC Sections 24416(c) through 24416.7 and R&TC Section 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area declared by the President of the United States or the Governor of California as a disaster area. If the disaster is declared by the Governor of California only, subsequent state legislation is required for the disaster provision to be activated. Losses taken into account under the disaster provisions may not be included in computing regular NOL deductions.

For more information, get form FTB 3805Q, ~~inside this booklet~~, or get form FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation — Pierce's Disease; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary; form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; or form FTB 3809, Targeted Tax Area Deduction and Credit Summary.

X Signatures

Preparer Tax Identification Number

Tax preparers have the option of providing their individual Social Security Number (SSN) or Preparer Tax Identification Number (PTIN) on returns they prepare. Preparers who want a PTIN must complete and submit federal Form W-7P, Application for Preparer Tax Identification Number, to the IRS.

Third Party Designee

If the corporation wants to allow the FTB to discuss its 2008 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the corporation is authorizing the FTB to call the paid preparer to answer any questions that may arise during the processing of the tax return. The corporation is also authorizing the paid preparer to:

- Give the FTB any information that is missing from the return.
- Call the FTB for information about the processing of the return or the status of any related refund or payments.
- Respond to certain FTB notices about math errors, offsets, and return preparation.

The corporation is not authorizing the paid preparer to receive any refund check, bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before the FTB.

The authorization will automatically end no later than the due date (without regard to extensions) for filing the corporation's 2009 tax return. If the corporation wants to expand the paid preparer's authorization or revoke the authorization before it ends, get form FTB 3520, Power of Attorney Declaration for the Franchise Tax Board.

Y New Corporations

New corporations, which begin business on or after January 1, 2000, are no longer required to prepay minimum tax to the California SOS.

For taxable years beginning on or after January 1, 2000, no minimum franchise tax will be due with the initial tax return. However, the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rates.

Specific Line Instructions

Taxpayers that are **not** filing on water's-edge basis should **use** Form 100.

Filing Form 100W without errors will expedite processing. Before mailing Form 100W, make sure entries have been made for the following:

- California corporation number (a valid seven digit number assigned by the California SOS).

- Federal employer identification number (FEIN) (nine digits).
- Corporation name (use the true legal name filed with the California SOS) and address (include PMB no., if applicable).

File the 2008 Form 100W for calendar year 2008 and fiscal years that begin in 2008. Enter taxable year beginning and ending dates **only** if the return is for a short year or a fiscal year. If the corporation reports its income using a calendar year, leave the date area blank. If the return is being filed for a short period (less than 12 months), write "short year" in red in the top margin. Convert all foreign monetary amounts to U.S. dollars.

The 2008 Form 100W may also be used if:

- The corporation has a taxable year of less than 12 months that begins and ends in 2009.
- The 2009 Form 100W is not available at the time the corporation is required to file its return. The corporation must show its 2009 taxable year on the 2008 Form 100W and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2008.

Questions A through AA

Answer all applicable questions and attach additional sheets, if necessary. Be sure to answer Questions C through AA on Form 100W, Side 2. Use the following instructions when answering:

Question B — Combined Report Information

~~Additional questions regarding Schedule R-7 have been added, make sure to complete all the questions.~~

Question E — Principal business activity (PBA) code

All corporations **must** answer Question E.

Include the six digit PBA code from the chart found on page 16 through page 18 of this booklet. The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California PBA code number may be different from the federal PBA code number.

If, as its principal business activity, the corporation: (1) Purchases raw material. (2) Subcontracts out for labor to make a finished product from the raw materials. (3) Retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes under "Manufacturing." Also, write in the business activity and the principal product or service on the lines provided.

Question I — Doing business as (DBA)

Corporations doing business under a name other than that entered on side one must enter the DBA name in question I. If the corporation is doing business under multiple DBA's attach a schedule listing all DBA's.

Leave question I blank if the corporation is not using a DBA to conduct business.

Question J — Transfer or acquisition of voting stock

All corporations **must** answer all three questions. If you do not own or lease (as specified on the next page) real property in California, answer no to the questions. (Real property includes land, buildings, structures, fixtures — see R&TC Section 104).

The questions provide information regarding changes in ownership with regard to real property held by legal entities (R&TC Section 64). If any of the answers are "Yes," a Statement of Change in Control and Ownership of Legal Entities (BOE-100-B), must be filed with the California State Board of Equalization (BOE). Failure to do so may result in substantial penalties. Forms and information may be obtained from the BOE website at: boe.ca.gov and can be accessed through **Property Tax**, and then **Legal Entity Ownership Program**.

There may be a change in ownership or control if, during this year, one of the following occurred with respect to this corporation or any of its subsidiaries:

- The percentage of outstanding voting shares transferred to, or owned or controlled by, **one** person or **one** legal entity cumulatively exceeded 50%.
- The total outstanding voting shares transferred to or held by **one** irrevocable trust or trust beneficiary cumulatively exceeded 50%.
- One or more irrevocable proxies cumulatively transferred voting rights to more than 50% of the outstanding voting shares to **one** person or **one** entity.
- This corporation, or any of its subsidiaries, cumulatively acquired ownership or control of more than 50% of the outstanding voting shares or other ownership interests in any legal entity.
- As of the end of this year, cumulatively more than 50% of the total outstanding voting shares have been transferred, or the corporation experienced a change in ownership or control in one or more transactions since March 1, 1975.

For purposes of these questions, leased real property is a leasehold interest in taxable real property: (1) leased for a term of 35 years or more (including renewal options), if not leased from a government agency; or (2) leased for any term, if leased from a government agency.

R&TC Section 64(e) requires this information for use by the California State BOE.

Question L – Reportable Transaction or Listed Transaction

Federal Form 8886, Reportable Transaction Disclosure Statement, is required to be attached to any return on which a deduction, loss, credit, or any other tax benefit is claimed or is reported, or any income the corporation's reported from an interest in a reportable transaction. If the corporation is required to file this form with the federal return, attach a copy to the corporation's Form 100W.

A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

A Reportable Transaction is any transaction as defined in R&TC Section 18407 and Treas. Reg. Section 1.6011-4 and includes, but is not limited to the following:

- A transaction with a significant book-tax difference (entered into prior to August 3, 2007). Beginning January 6, 2006, this transaction was no longer required to be disclosed on Form 8886. See IRS Notice 2006-06.
- A Listed Transaction, or a transaction that is substantially similar to a Listed Transaction, which has been identified by the IRS or the FTB to be a tax avoidance transaction.

- A Confidential Transaction which is offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which provides the taxpayer with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained.
- A loss transaction under IRC Section 165 which is at least \$10 million in any one year or \$20 million in any combination of taxable years. (Those numbers would be reduced to \$2 million and \$4 million on the Form 100S.)
- A transaction where the taxpayer is claiming a tax credit of greater than \$250,000 and held the asset for less than 45 days (entered into prior to August 3, 2007).
- A transaction of interest is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has identified by notice, regulation, or other form of published guidance as a transaction of interest (entered into beginning November 1, 2006).

A Listed Transaction is a specific transaction, or one that is substantially similar, which has been identified by the IRS or the FTB to be a tax avoidance transaction.

Question S – Regulated Investment Company (RIC)

California conforms to federal law for taxable years beginning on or after January 1, 1998, for the provisions related to the repeal of the 30% gross income test for RICs.

Question T – Real Estate Mortgage Investment Conduit (REMIC)

If a corporation is a REMIC for federal purposes, it is deemed to be a REMIC for California purposes. A REMIC is subject to the minimum franchise tax but is not subject to the income or franchise tax. The income of a REMIC is taxable to the holders of the REMIC interests. In order to qualify, substantially all of the assets of the entity must consist of "qualified mortgages" and "permitted investments." See the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return, to determine if the corporation qualifies. California law is the same as federal law, except California does not impose a tax on prohibited transactions, as defined in IRC Section 860F. The income or gain from such prohibited transactions remains includible in the California tax base. If the corporation is a REMIC for federal purposes, answer "Yes" to Question T, complete Form 100W and attach a copy of federal Form 1066.

Question U – Real Estate Investment Trust (REIT)

California conforms to the federal law relating to REITs, except for the provisions relating to retaining capital gain tax credit added by Section 1254 of the Taxpayer Relief Act of 1997, and various alternative taxes imposed on certain income and activities of REITs (although such income amounts remain includible in the California tax base). Additionally, a federal election to treat property as foreclosure property under IRC Section 856(e)(5) is considered to be an election for California as well. No separate elections are allowed.

Question V – Limited Liability Company (LLC) or Limited Partnership (LP)

Answer "Yes" only if the business entity for which the Form 100W is being filed is organized as an LLC or LP but is classified as a corporation

for federal tax purposes. An LLC classified as a partnership for federal purposes should generally file Form 568. A LP should file Form 565.

Question Z – Corporations That Own 80% of an Insurance Company

One of the provisions (AB 263, Stats. 2004 ch. 868) includes a reporting requirement to the Legislature. To meet this requirement, the FTB may contact any corporation who answers "Yes" for additional information.

Line 1 through Line 42

Line 1 – Net income (loss) before state adjustments

Corporations using the federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120, line 28, to Form 100W, Side 1, line 1; and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120, Page 1, onto Schedule F and transfer the amount from Schedule F, line 29, to Form 100W, Side 1, line 1.
- Then, complete Form 100W, Side 1, line 2 through line 17, State Adjustments.

Corporations using the California computation method to figure net income (see General Information I) must transfer the amount from Side 3, Schedule F, line 29; to Side 1, line 1. Complete Form 100W, Side 1, line 2 through line 17, only if applicable.

Line 2 through Line 17 – State adjustments

To figure net income for California purposes, corporations using the federal reconciliation method must enter California adjustments to the federal net income on Side 1, line 2 through line 17. If a specific line for the adjustment is not on Form 100W, corporations must enter the adjustment on line 8, Other additions, or line 16, Other deductions, and attach a schedule that explains the adjustment.

Line 2 and Line 3 – Taxes not deductible

California does not permit a deduction of California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Such taxes that are shown on Form 100W, Schedule A, must be added to income by entering the amount on Side 1, line 2 or line 3 (see Schedule A, column (d) for the amount to be added to income). California does not permit a deduction for environmental taxes imposed by IRC Section 59A.

The LLC fee is not a tax, R&TC Section 17942; therefore, it is deductible. Do **not** include any part of an LLC fee on line 2 or line 3.

Line 4 – Interest on government obligations

Corporations subject to California franchise tax must report all interest received on government obligations (such as federal, state, or municipal bonds). On line 4, enter all interest on government obligations that is not included in the federal ordinary income (loss).

Corporations subject to California corporation income tax, see instructions for line 16.

Line 5 – Net California capital gain

Complete Schedule D on Side 5 of Form 100W, and enter the California net capital gain from Schedule D, line 11.

Get FTB Pub. 1061 for instructions on determining the net capital gain when a combined report is filed.

Line 6 and Line 12 – Depreciation and amortization

California law is substantially different from federal law for corporations.

Complete form FTB 3885 included in this booklet, to determine the amounts to enter on line 6 or line 12.

Line 7a – Net income from Included Controlled Foreign Corporations (CFCs)

R&TC Section 25110(a)(2)(A) provides that a portion of the income and apportionment factors of any CFC (defined in IRC Section 957) that has Subpart F income, as defined in IRC Section 952, must be included in the combined report of a taxpayer making a water's-edge election. Complete and attach form FTB 2416, Schedule of Included Controlled Foreign Corporations, included in this booklet, to compute the amount to enter on line 7a.

Line 7b – Income not included in federal consolidated return

Use this line to report the net income from corporations included in the combined report but not included in the federal consolidated return.

Line 8 – Other additions

R&TC Section 24425 disallows expenses allocable to income, which is not included in the measure of the Franchise Tax or Income Tax. Add back such deductions on this line. Also, any miscellaneous items that must be added to arrive at net income after state adjustments (line 18) should be shown on this line. Attach a schedule to itemize amounts. If any federal contribution deduction reduced the amount entered on Form 100W, Side 1, line 1, enter that amount on this line.

California ordinary net gain or loss. Enter any California ordinary net gain or loss from Schedule D-1, Sales of Business Property. Attach Schedule D-1.

Line 10 and Line 11 – Dividends

Complete Schedule H (100W), Dividend Income Deduction, included in this booklet.

Foreign Investment Interest Offset

R&TC Section 24344(c) provides that interest expense incurred for purposes of foreign investment is offset against the water's-edge dividends deductible under R&TC Section 24411. The offset cannot be greater than the deduction allowed pursuant to R&TC Section 24411. Complete and attach form FTB 2424, Water's-Edge Foreign Investment Interest Offset, to the return. For more information, see R&TC Section 24344(c) and the instructions for form FTB 2424 inside this booklet.

Line 13 – Federal capital gain net income

Enter the federal capital gain net income from federal Form 1120, line 8. The California net capital gain should have been added to income on line 5.

Line 14 – Contributions

The contribution deduction for a California corporation is limited to the adjusted basis of the assets being contributed.

For taxable years beginning on or after January 1, 1996, the contribution deduction is limited to 10% of California net income. Carryover provisions per IRC Section 170(d)(2) apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100W format, complete Form 100W, Side 1, line 1 through line 18 without regard to line 14, Contributions. If any federal contribution deduction was taken in arriving at the amount entered on

Side 1, line 1, enter that amount as a positive number on line 8. Enter the adjusted basis of the assets contributed on line 5 of the worksheet. Then complete the worksheet that follows to determine the contributions to enter on line 14.

1. Net income after state adjustments from Side 1, line 18. _____
2. Deduction for dividends received. _____
3. Net income for contribution calculation purposes. Add line 1 and line 2. _____
4. Contributions. Multiply line 3 by 10% (.10). _____
5. Enter the amount actually contributed. _____
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 14. _____

Get Schedule R to figure the contribution computation for apportioning corporations.

Line 15 – EZ, TTA, or LAMBRA business expense and/or EZ net interest deduction

Businesses conducting a trade or business within an Enterprise Zone (EZ), Targeted Tax Area (TTA), or Local Agency Military Base Recovery Area (LAMBRA) may elect to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z; form FTB 3809; or form FTB 3807.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business within an EZ. For more information, get form FTB 3805Z.

Be sure to attach a copy of the applicable form to the Form 100W if any of these benefits are claimed. If the proper form is not attached, these tax benefits may be disallowed.

Line 16 – Other deductions

Include on this line deductions not claimed on any other line. Attach a schedule that clearly shows how each deduction was computed and explain the basis for the deduction.

For corporations subject to income tax (instead of the franchise tax), interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 4, it must be deducted on line 16.

Federal ordinary net gain or loss. Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property.

Line 19 – Net income (loss) for state purposes

If all corporate income is derived from California sources, transfer the amount on line 18 directly to line 19.

If only a portion of income is derived from California sources, complete Schedule R before entering any amount on line 19. Transfer the amount from Schedule R, line 35, to Form 100W, line 19. Be sure to answer "Yes" to Question M on Form 100W, Side 2.

If this line is a net loss, complete and attach the 2008 form FTB 3805Q to Form 100W.

Line 20, Line 21, and Line 22

The order in which line 20, line 21, and line 22 appear is not meant to imply the order in which

any NOL carryover deduction or disaster loss deduction is to be taken if more than one type of deduction is available.

Line 20 – Net operating loss (NOL) carryover deduction

The NOL carryover deduction is the amount of the NOL carryover from prior years that may be deducted from income in the current taxable year.

If line 19 is a positive amount, enter the NOL carryover from the 2008 form FTB 3805Q, Part III, line 3 on Form 100W, line 20. The loss may not reduce current year income below zero. Any excess loss must be carried forward. Attach a copy of the 2008 form FTB 3805Q to Form 100W.

If the full amount of the NOL carryover may not be deducted this year, complete and attach a 2008 form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 19 is a negative amount, corporations may not claim an NOL carryover deduction. Enter -0- on line 20. Get the 2008 form FTB 3805Q instructions to compute the NOL carryover to future years.

If the corporation terminates its election to be taxed as an S corporation, thus becoming a C corporation, then only that portion of the prior NOL carryover incurred while it had C corporation status may be used to the extent it has not expired.

Line 21 – Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction

An NOL generated by a farming business due to Pierce's disease or a business that operates (operated) or invests (invested) within an EZ, the former Los Angeles Revitalization Zone (LARZ), the TTA, or a LAMBRA receives special tax treatment. The loss may not reduce the corporation's current year income below zero. Any excess loss must be carried forward. Compute the corporation's EZ, TTA, or LAMBRA NOL using form FTB 3805Z; form FTB 3809; or form FTB 3807.

Compute and enter the Pierce's disease, EZ, TTA, LARZ, or LAMBRA NOL carryover deduction from the corporation's form FTB 3805D; form FTB 3805Z; form FTB 3809; form FTB 3806; or form FTB 3807, on Form 100W, line 21. Attach a copy of the applicable form to the Form 100W.

Line 22 – Disaster loss carryover deduction

If the corporation has a disaster loss carryover deduction, enter the total amount from the 2008 form FTB 3805Q, Part III, line 2, if there is income in the current year. The loss may not reduce current year income below zero. Any excess loss must be carried forward.

Line 24 – Tax

Use rates listed in General Information B, Tax Rates, and C, Minimum Franchise Tax.

Line 25 through Line 27 – Tax credits

A variety of tax credits are available to California corporations to reduce tax. However, corporations may not reduce the tax (line 24) below the minimum franchise tax, if applicable.

Also, the amount of the credit that a corporation is allowed to claim may be limited. Generally, if the corporation completed federal Form 4626 the corporation may have limited credits. Complete Schedule P (100W), included in this booklet, to compute this limitation.

Corporations claiming the following credits are not subject to the TMT limitation:

- Enterprise zone hiring & sales or use tax credit
- LARZ construction hiring & sales or use tax credit carryover

- Solar energy credit carryover code 180
- Commercial solar energy credit carryover
- Commercial solar electric system credit
- Research credit
- Orphan drug credit carryover
- Low-income housing credit
- Manufacturers' investment credit carryover
- Targeted tax area hiring and sales or use tax credit
- Natural heritage preservation tax credit
- Clinical testing expense credit carryover

Each credit is identified by a code number. See the credit code chart on page 15. To claim one or two credits, enter the credit name, code number, and the amount of the credit on line 25 and line 26. To claim more than two credits, use Schedule P (100W). List two of the credits on line 25 and line 26. Enter the total of any remaining credits from Schedule P (100W) on line 27. Do not make an entry on line 27 unless line 25 and line 26 are complete.

To figure tax credits, use the appropriate form or schedule. If the corporation claims a credit carryover for an expired credit, use form FTB 3540, Credit Carryover Summary, to figure the amount of credit, unless the corporation is required to complete Schedule P (100W). In that case, enter the amount of the credit on Schedule P (100W) and complete Schedule P (100W). Do not attach form FTB 3540.

Attach the credit form or schedule and Schedule P (100W), if applicable, to Form 100W.

Line 29 – Balance

Subtract line 28 from line 24. Enter the result or the applicable minimum franchise tax, whichever is more. See General Information C, Minimum Franchise Tax.

Line 30 – Alternative minimum tax (AMT)

Enter on this line the AMT from Schedule P (100W), Part I, line 19, or Part II, line 18, whichever is applicable.

Line 33 – 2008 Estimated tax payments

Enter the total amount of estimated tax payments made during the 2008 taxable year on this line.

Line 34 – 2008 Nonresident or real estate withholding

Enter the 2008 nonresident or real estate withholding credit from Form(s) 592-B, 593, or 594. Attach a copy of the form(s) to the lower front of Form 100W, Side 1.

Line 37 and Line 38 – Tax due or overpayment

Revise the amount of tax due or overpayment, if applicable, by the amount on Side 3, Schedule J, line 6. See instructions for Schedule J.

Line 39 – Amount to be credited to 2009 estimated tax

If the corporation chooses to have the overpayment credited to next year's estimated tax payment, the corporation cannot later request that

the overpayment be applied to the prior year to offset any tax due.

Line 40 – Refund

Direct Deposit of Refund (DDR)

Direct deposit is fast, safe, and convenient. To have the refund directly deposited into the corporation's bank account, enter the account information on Form 100W, Side 2, lines 40a, 40b, and 40c. Be sure to fill in **all** the information. Do not attach a voided check or deposit slip.

Caution: Check with the corporation's financial institution to make sure the deposit will be accepted and to get the correct routing and account numbers. The FTB is not responsible for a lost refund due to incorrect account information.

To cancel the DDR, call the FTB at (916) 845-0353. The FTB is not responsible when a financial institution rejects a direct deposit. If the FTB, the bank, or financial institution rejects the direct deposit due to an error in the routing number or account number, the FTB will issue a paper check.

Line 41 – Penalties and interest

Enter on line 41a the amount of any penalties and interest due. Complete and attach form FTB 5806 to the front of Form 100W, only if Exception B or Exception C is used in computing or eliminating the penalty. Be sure to check the box on line 41b.

Schedules

Schedule A — Taxes Deducted

Enter the nature of the tax, the taxing authority, the total tax, and the amount of the tax that is not deductible for California purposes on Form 100W, Side 3, Schedule A.

Schedule D — Capital Gain or Loss

California law does not conform to the federal reduced capital gains tax rates. California taxes capital gains at the same rate as other types of income. California does not allow a three-year carryback of capital losses.

Enter any unused capital loss carryover from 2007 on Schedule D, line 3.

For information regarding the application of the capital loss limitation and the capital loss carryover in a combined report, see Cal. Code Regs., tit. 18 section 25106.5-2 and FTB Pub. 1061.

Schedule F — Computation of Net Income

See General Information I, Net Income Computation, for information on net income computation methods.

Line 4 - Total Dividends

Enter the total amount of dividends received.

Line 13 – Salaries and Wages

Gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised on or after January 1, 1997, and before January 1, 2002, can be excluded from gross income if the individual's earned income is \$40,000 or less. The exclusion from gross income is subject to AMT and the corporation is not allowed a deduction for the compensation excluded from the employee's gross income. For more information, see R&TC Section 24602.

Line 27 – Other deductions

Do not include the dividend deduction on this line. Instead enter the dividend deduction on Form 100W, Side 1, lines 10, 11a or 11b.

Schedule G — Bad Debts Reserve Method

For taxable years beginning on or after January 1, 2002, only banks that are not a large bank, as defined in the IRC Section 585(c)(2), may use the bad debt reserve method.

For the purpose of the bad debt reserve method, banks include savings and loan associations, and other financial institutions. For more information, see IRC Sections 581 and 585. Complete Schedule G on this page and attach it to Form 100W.

Schedule J — Add-On Taxes and Recapture of Tax Credits

Complete Schedule J on Form 100W, Side 3, if the corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for the following:

- Last-in, first-out (LIFO) recapture resulting from an S corporation election.
- Interest computed under the look-back method for completed long-term contracts.
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations.
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible.

Revise the amount of tax due or overpayment on Form 100W, line 37 or line 38, as applicable by the amount from Schedule J, line 6.

Installment payment of tax attributable to last-in, first-out (LIFO) recapture for corporations making an S corporation election. A corporation that uses the LIFO inventory pricing method and makes an S corporation election must include a "LIFO recapture amount" in income for its last year as a C corporation. The corporation's LIFO

Schedule G Bad Debts — Reserve Method. See instructions

(a) Taxable year	(b) Accounts outstanding at the end of the year	Amount added to reserve		(e) Amount charged against reserve	(f) Reserve for bad debts at end of year
		(c) Current year's provisions	(d) Recoveries		
2003					
2004					
2005					
2006					
2007					
2008					

recapture amount is equal to the excess of the inventory amount using the first-in, first-out (FIFO) method, over the inventory amount using the LIFO method, at the close of the corporation's last taxable year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture in income is payable in four equal installments. The first installment is due on the original due date of Form 100W of the electing corporation's last year as a C corporation.

To determine the additional tax due to LIFO recapture, the corporation must complete Form 100W, Side 1, line 19 through line 31, based on income that does not include the LIFO recapture amount.

On a separate worksheet using the Form 100W format, the corporation must complete the equivalent of Form 100W, Side 1, line 19 through line 31, based on taxable income including the LIFO recapture amount. Form 100W, Side 1, line 31, must then be compared to line 31 of the worksheet. The difference is the additional tax due to LIFO recapture.

Since Form 100W, Side 1, line 31, does not include the additional tax due to LIFO recapture, the corporations must include 1/4 of the additional tax on Schedule J, line 1, and adjust line 37 or line 38 accordingly. Attach the worksheet showing the computation.

The electing S corporations must pay the remaining three installments of deferred tax with Form 100S.

Long-term contracts. If the corporation must compute interest under the look-back method for completed long-term contracts, complete and attach form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Include the amount of interest the corporation owes or the amount of interest to be credited or refunded to the corporation on Schedule J, line 2. If interest is to be credited or refunded, enter as a negative amount. Attach form FTB 3834 to Form 100W.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138. Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain nondealer installment obligations. If an obligation arising from the disposition of property to which IRC Section 453A(c) applies is outstanding at the close of the year, the corporation must include the interest due under IRC Section 453A on Schedule J, line 3b. For the applicable interest rates, get FTB Pub. 1138.

IRC Section 197(f)(9)(B)(ii) election. Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

Credit recapture.

Complete Schedule J, line 5, if the corporation completed the credit recapture portion for any of the following forms:

- FTB 3501, Employer Child Care Program/Contribution Credit.
- FTB 3511, Environmental Tax Credit.
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary.
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary.
- FTB 3808, Manufacturing Enhancement Area Credit Summary.
- FTB 3809, Targeted Tax Area Deduction and Credit Summary.

Also complete Schedule J, line 5, if the corporation is subject to recapture for any of the following forms:

- The Farmworker Housing Credits.
- The Community Development Financial Institution Deposits Credit.

Schedule M-1—Reconciliation of Income (Loss) per Books With Income (Loss) per Return.

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. The federal and state Schedule M-1 may be the same when the corporation uses the federal reconciliation method for net income computation. See General Information I, Net Income Computation, for more information. The Schedule M-1 will be different from the federal Form 1120, Schedule M-1 if using the California computation method for net income. The California computation method is generally used when the corporation has no federal filing requirement, or if the corporation maintains separate records for state purposes.

Reporting requirements. If the corporation's total receipts (see top of page 16 for definition of total receipts) for the taxable year and total assets at the end of the taxable year are less than \$250,000, the corporation is not required to complete, Schedule L, Schedule M-1, and Schedule M-2. However, this information must be available in the future upon request.

Corporations with total assets of \$10 million or more. For taxable years beginning on or after January 1, 2004, the IRS requires any domestic corporation or U.S. consolidated tax group with total assets of \$10 million or more on the last day of the taxable year to complete Schedule M-3 (Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 Million or More, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income per Return.

For California purposes, the corporation must complete the California Schedule M-1, and attach either of the following:

- A copy of the Schedule M-3 (Form 1120) and related attachments to the Form 100W.
- A complete copy of the federal Form 1120.

FTB will accept the Schedule M-3 (Form 1120) in a spreadsheet format if more convenient.

CREDIT NAME	CODE	DESCRIPTION
Current Credits		
Community Development Financial Institution Deposits – Obtain certification from: CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, SUITE 1600 SACRAMENTO CA 95814 Website: insurance.ca.gov	209	20% of qualified investments made into a community development financial institution
Disabled Access for Eligible Small Businesses – FTB 3548	205	Similar to the federal credit, but limited to \$125 per eligible small business, and based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: 30% of the cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery – FTB 3546	203	1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for trade or business activities conducted within an enterprise zone
Environmental Tax – FTB 3511	218	Five cents (\$0.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in this state
Farmworker Housing – Construction	207	50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing
Farmworker Housing – Loan Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM, CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 915 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814 Website: treasurer.ca.gov	208	Banks and financial corporations: 50% of foregone interest income on qualified farmworker housing loans
Local Agency Military Base Recovery Area Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for trade or business activities conducted within a local agency military base recovery area
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturing Enhancement Area – FTB 3808	211	Hiring Credit for Manufacturing Enhancement Area
Natural Heritage Preservation – FTB 3503	213	55% of the fair market value of the qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government
Prior Year Alternative Minimum Tax – FTB 3510	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in the current year
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Rice Straw Obtain certification from: DEPARTMENT OF FOOD AND AGRICULTURE 1220 N STREET, ROOM 140 SACRAMENTO CA 95814 Website: cdfa.ca.gov	206	\$15 per ton of rice straw grown in California
Targeted Tax Area Hiring & Sales or Use Tax – FTB 3809	210	Business incentives for trade or business activities conducted within a targeted tax area

Repealed Credits with Carryover Provisions

The expiration dates for these credits have passed. However, these credits had carryover provisions. The corporation may claim these credits if there is a carryover available from prior years. If the corporation is not required to complete Schedule P (100W), get form FTB 3540, Credit Carryover Summary, to figure the credit carryover to future years.

Agricultural Products	175	Joint Strike Fighter Wage	215	Ridesharing.	171
Commercial Solar Electric System	196	Joint Strike Fighter Property	216	Salmon & Steelhead Trout Habitat Restoration	200
Commercial Solar Energy	181	Los Angeles Revitalization Zone Hiring & Sales or Use Tax	159	Solar Energy	180
Contribution of Computer Software	202	Low-Emission Vehicles	160	Solar Pump	179
Employee Ridesharing – Large employer	191	Manufacturers' Investment	199	Solar or Wind Energy System	217
Employer Ridesharing – Small employer	192	Orphan Drug	185	Technology Property Contributions	201
Employer Rideshare – Transit	193	Recycling Equipment	174		
Energy Conservation	182				

Principal Business Activity Codes

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (Form 100W, Side 3, Schedule F, line 1a) plus all other income (Form 100W, Side 3, Schedule F, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (31110-339900).

Once the principal business activity is determined, entries must be made on Form 100W, Question E. For the business activity code number, enter the six-digit code selected from the list below. On the next line enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on the next line.

Agriculture, Forestry, Fishing, and Hunting

Code

Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems
- 221500 Combination Gas and Electric

Construction

Code

Construction of Buildings

- 236110 Residential Building Construction
- 236200 Nonresidential Building Construction

Heavy and Civil Engineering Construction

- 237100 Utility System Construction
- 237210 Land Subdivision
- 237310 Highway, Street, & Bridge Construction
- 237990 Other Heavy & Civil Engineering Construction

Specialty Trade Contractors

- 238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)
- 238210 Electrical Contractors
- 238220 Plumbing, Heating, & Air-Conditioning Contractors
- 238290 Other Building Equipment Contractors
- 238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)
- 238900 Other Specialty Trade Contractors (including site preparation)

Manufacturing

Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

Apparel Manufacturing

- 315100 Apparel Knitting Mills

Code

- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg
- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

Printing and Related Support Activities

- 323100 Printing & Related Support Activities

Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg

Code

- 332810 Coating, Engraving, Heat Treating, & Allied Activities
- 332900 Other Fabricated Metal Product Mfg

Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine, & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

Wholesale Trade

Merchant Wholesalers, Durable Goods

- 423100 Motor Vehicle & Motor Vehicle Parts & Supplies
- 423200 Furniture & Home Furnishings
- 423300 Lumber & Other Construction Materials
- 423400 Professional & Commercial Equipment & Supplies
- 423500 Metal & Mineral (except Petroleum)
- 423600 Electrical & Electronic Goods
- 423700 Hardware, & Plumbing & Heating Equipment & Supplies
- 423800 Machinery, Equipment, & Supplies
- 423910 Sporting & Recreational Goods & Supplies
- 423920 Toy & Hobby Goods & Supplies
- 423930 Recyclable Materials
- 423940 Jewelry, Watch, Precious Stone, & Precious Metals
- 423990 Other Miscellaneous Durable Goods

<p>Code</p> <p>Merchant Wholesalers, Nondurable Goods</p> <p>424100 Paper & Paper Products</p> <p>424210 Drugs & Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, & Notions</p> <p>424400 Grocery & Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical & Allied Products</p> <p>424700 Petroleum & Petroleum Products</p> <p>424800 Beer, Wine, & Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, & Newspapers</p> <p>424930 Flower, Nursery Stock, & Florists' Supplies</p> <p>424940 Tobacco & Tobacco Products</p> <p>424950 Paint, Varnish, & Supplies</p> <p>424990 Other Miscellaneous Nondurable Goods</p> <p>Wholesale Electronic Markets and Agents and Brokers</p> <p>425110 Business to Business Electronic Markets</p> <p>425120 Wholesale Trade Agents & Brokers</p>	<p>Code</p> <p>Clothing and Clothing Accessories Stores</p> <p>448110 Men's Clothing Stores</p> <p>448120 Women's Clothing Stores</p> <p>448130 Children's & Infants' Clothing Stores</p> <p>448140 Family Clothing Stores</p> <p>448150 Clothing Accessories Stores</p> <p>448190 Other Clothing Stores</p> <p>448210 Shoe Stores</p> <p>448310 Jewelry Stores</p> <p>448320 Luggage & Leather Goods Stores</p> <p>Sporting Goods, Hobby, Book, and Music Stores</p> <p>451110 Sporting Goods Stores</p> <p>451120 Hobby, Toy, & Game Stores</p> <p>451130 Sewing, Needlework, & Piece Goods Stores</p> <p>451140 Musical Instrument & Supplies Stores</p> <p>451211 Book Stores</p> <p>451212 News Dealers & Newsstands</p> <p>451220 Prerecorded Tape, Compact Disc, & Record Stores</p> <p>General Merchandise Stores</p> <p>452110 Department stores</p> <p>452900 Other General Merchandise Stores</p> <p>Miscellaneous Store Retailers</p> <p>453110 Florists</p> <p>453210 Office Supplies & Stationery Stores</p> <p>453220 Gift, Novelty, & Souvenir Stores</p> <p>453310 Used Merchandise Stores</p> <p>453910 Pet & Pet Supplies Stores</p> <p>453920 Art Dealers</p> <p>453930 Manufactured (Mobile) Home Dealers</p> <p>453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)</p> <p>Nonstore Retailers</p> <p>454110 Electronic Shopping & Mail-Order Houses</p> <p>454210 Vending Machine Operators</p> <p>454311 Heating Oil Dealers</p> <p>454312 Liquefied Petroleum Gas (Bottled Gas) Dealers</p> <p>454319 Other Fuel Dealers</p> <p>454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)</p>	<p>Code</p> <p>Support Activities for Transportation</p> <p>488100 Support Activities for Air Transportation</p> <p>488210 Support Activities for Rail Transportation</p> <p>488300 Support Activities for Water Transportation</p> <p>488410 Motor Vehicle Towing</p> <p>488490 Other Support Activities for Road Transportation</p> <p>488510 Freight Transportation Arrangement</p> <p>488990 Other Support Activities for Transportation</p> <p>Couriers and Messengers</p> <p>492110 Couriers</p> <p>492210 Local Messengers & Local Delivery</p> <p>Warehousing and Storage</p> <p>493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)</p> <p>Information</p> <p>Publishing Industries (except Internet)</p> <p>511110 Newspaper Publishers</p> <p>511120 Periodical Publishers</p> <p>511130 Book Publishers</p> <p>511140 Directory & Mailing List Publishers</p> <p>511190 Other Publishers</p> <p>511210 Software Publishers</p> <p>Motion Picture and Sound Recording Industries</p> <p>512100 Motion Picture & Video Industries (except video rental)</p> <p>512200 Sound Recording Industries</p> <p>Broadcasting (except Internet)</p> <p>515100 Radio & Television Broadcasting</p> <p>515210 Cable & Other Subscription Programming</p> <p>Internet Publishing and Broadcasting</p> <p>516110 Internet Publishing & Broadcasting</p> <p>Telecommunications</p> <p>517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications)</p> <p>Internet Service Providers, Web Search Portals, and Data Processing Services</p> <p>518111 Internet Service Providers</p> <p>518112 Web Search Portals</p> <p>518210 Data Processing, Hosting, & Related Services</p> <p>Other Information Services</p> <p>519100 Other Information Services (including news syndicates & libraries)</p>	<p>Code</p> <p>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</p> <p>523110 Investment Banking & Securities Dealing</p> <p>523120 Securities Brokerage</p> <p>523130 Commodity Contracts Dealing</p> <p>523140 Commodity Contracts Brokerage</p> <p>523210 Securities & Commodity Exchanges</p> <p>523900 Other Financial Investment Activities (including portfolio management & investment advice)</p> <p>Insurance Carriers and Related Activities</p> <p>524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers</p> <p>524150 Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers</p> <p>524210 Insurance Agencies & Brokerages</p> <p>524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)</p> <p>Funds, Trusts, and Other Financial Vehicles</p> <p>525100 Insurance & Employee Benefit Funds</p> <p>525910 Open-End Investment Funds (Form 1120-RIC)</p> <p>525920 Trusts, Estates, & Agency Accounts</p> <p>525930 Real Estate Investment Trusts (Form 1120-REIT)</p> <p>525990 Other Financial Vehicles (including closed-end investment funds)</p> <p>"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under Management of Companies (Holding Companies) on next page.</p>
<p>Retail Trade</p> <p>Motor Vehicle and Parts Dealers</p> <p>441110 New Car Dealers</p> <p>441120 Used Car Dealers</p> <p>441210 Recreational Vehicle Dealers</p> <p>441221 Motorcycle Dealers</p> <p>441222 Boat Dealers</p> <p>441229 All Other Motor Vehicle Dealers</p> <p>441300 Automotive Parts, Accessories, & Tire Stores</p> <p>Furniture and Home Furnishings Stores</p> <p>442110 Furniture Stores</p> <p>442210 Floor Covering Stores</p> <p>442291 Window Treatment Stores</p> <p>442299 All Other Home Furnishings Stores</p> <p>Electronics and Appliance Stores</p> <p>443111 Household Appliance Stores</p> <p>443112 Radio, Television, & Other Electronics Stores</p> <p>443120 Computer & Software Stores</p> <p>443130 Camera & Photographic Supplies Stores</p> <p>Building Material and Garden Equipment and Supplies Dealers</p> <p>444110 Home Centers</p> <p>444120 Paint & Wallpaper Stores</p> <p>444130 Hardware Stores</p> <p>444190 Other Building Material Dealers</p> <p>444200 Lawn & Garden Equipment & Supplies Stores</p> <p>Food and Beverage Stores</p> <p>445110 Supermarkets and Other Grocery (except Convenience) Stores</p> <p>445120 Convenience Stores</p> <p>445210 Meat Markets</p> <p>445220 Fish & Seafood Markets</p> <p>445230 Fruit & Vegetable Markets</p> <p>445291 Baked Goods Stores</p> <p>445292 Confectionery & Nut Stores</p> <p>445299 All Other Specialty Food Stores</p> <p>445310 Beer, Wine, & Liquor Stores</p> <p>Health and Personal Care Stores</p> <p>446110 Pharmacies & Drug Stores</p> <p>446120 Cosmetics, Beauty Supplies, & Perfume Stores</p> <p>446130 Optical Goods Stores</p> <p>446190 Other Health & Personal Care Stores</p> <p>Gasoline Stations</p> <p>447100 Gasoline Stations (including convenience stores with gas)</p>	<p>Transportation and Warehousing</p> <p>Air, Rail, and Water Transportation</p> <p>481000 Air Transportation</p> <p>482110 Rail Transportation</p> <p>483000 Water Transportation</p> <p>Truck Transportation</p> <p>484110 General Freight Trucking, Local</p> <p>484120 General Freight Trucking, Long-distance</p> <p>484200 Specialized Freight Trucking</p> <p>Transit and Ground Passenger Transportation</p> <p>485110 Urban Transit Systems</p> <p>485210 Interurban & Rural Bus Transportation</p> <p>485310 Taxi Service</p> <p>485320 Limousine Service</p> <p>485410 School & Employee Bus Transportation</p> <p>485510 Charter Bus Industry</p> <p>485990 Other Transit & Ground Passenger Transportation</p> <p>Pipeline Transportation</p> <p>486000 Pipeline Transportation</p> <p>Scenic & Sightseeing Transportation</p> <p>487000 Scenic & Sightseeing Transportation</p>	<p>Finance and Insurance</p> <p>Depository Credit Intermediation</p> <p>522110 Commercial Banking</p> <p>522120 Savings Institutions</p> <p>522130 Credit Unions</p> <p>522190 Other Depository Credit Intermediation</p> <p>Nondepository Credit Intermediation</p> <p>522210 Credit Card Issuing</p> <p>522220 Sales Financing</p> <p>522291 Consumer Lending</p> <p>522292 Real Estate Credit (including mortgage bankers & originators)</p> <p>522293 International Trade Financing</p> <p>522294 Secondary Market Financing</p> <p>522298 All Other Nondepository Credit Intermediation</p> <p>Activities Related to Credit Intermediation</p> <p>522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)</p>	<p>Real Estate and Rental and Leasing</p> <p>Real Estate</p> <p>531110 Lessors of Residential Buildings & Dwellings</p> <p>531114 Cooperative Housing</p> <p>531120 Lessors of Nonresidential Buildings (except Miniwarehouses)</p> <p>531130 Lessors of Miniwarehouses & Self-Storage Units</p> <p>531190 Lessors of Other Real Estate Property</p> <p>531210 Offices of Real Estate Agents & Brokers</p> <p>531310 Real Estate Property Managers</p> <p>531320 Offices of Real Estate Appraisers</p> <p>531390 Other Activities Related to Real Estate</p> <p>Rental and Leasing Services</p> <p>532100 Automotive Equipment Rental & Leasing</p> <p>532210 Consumer Electronics & Appliances Rental</p> <p>532220 Formal Wear & Costume Rental</p> <p>532230 Video Tape & Disc Rental</p> <p>532290 Other Consumer Goods Rental</p> <p>532310 General Rental Centers</p> <p>532400 Commercial & Industrial Machinery & Equipment Rental & Leasing</p> <p>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p> <p>533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p>
			<p>Professional, Scientific, and Technical Services</p> <p>Legal Services</p> <p>541110 Offices of Lawyers</p> <p>541190 Other Legal Services</p>

<p><i>Code</i></p> <p>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</p> <p>541211 Offices of Certified Public Accountants</p> <p>541213 Tax Preparation Services</p> <p>541214 Payroll Services</p> <p>541219 Other Accounting Services</p> <p>Architectural, Engineering, and Related Services</p> <p>541310 Architectural Services</p> <p>541320 Landscape Architecture Services</p> <p>541330 Engineering Services</p> <p>541340 Drafting Services</p> <p>541350 Building Inspection Services</p> <p>541360 Geophysical Surveying & Mapping Services</p> <p>541370 Surveying & Mapping (except Geophysical) Services</p> <p>541380 Testing Laboratories</p> <p>Specialized Design Services</p> <p>541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)</p> <p>Computer Systems Design and Related Services</p> <p>541511 Custom Computer Programming Services</p> <p>541512 Computer Systems Design Services</p> <p>541513 Computer Facilities Management Services</p> <p>541519 Other Computer Related Services</p> <p>Other Professional, Scientific, and Technical Services</p> <p>541600 Management, Scientific, & Technical Consulting Services</p> <p>541700 Scientific Research & Development Services</p> <p>541800 Advertising & Related Services</p> <p>541910 Marketing Research & Public Opinion Polling</p> <p>541920 Photographic Services</p> <p>541930 Translation & Interpretation Services</p> <p>541940 Veterinary Services</p> <p>541990 All Other Professional, Scientific, & Technical Services</p>	<p><i>Code</i></p> <p>561500 Travel Arrangement & Reservation Services</p> <p>561600 Investigation & Security Services</p> <p>561710 Exterminating & Pest Control Services</p> <p>561720 Janitorial Services</p> <p>561730 Landscaping Services</p> <p>561740 Carpet & Upholstery Cleaning Services</p> <p>561790 Other Services to Buildings & Dwellings</p> <p>561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)</p> <p>Waste Management and Remediation Services</p> <p>562000 Waste Management & Remediation Services</p> <p>Educational Services</p> <p>611000 Educational Services (including schools, colleges, & universities)</p> <p>Health Care and Social Assistance</p> <p>Offices of Physicians and Dentists</p> <p>621111 Offices of Physicians (except mental health specialists)</p> <p>621112 Offices of Physicians, Mental Health Specialists</p> <p>621210 Offices of Dentists</p> <p>Offices of Other Health Practitioners</p> <p>621310 Offices of Chiropractors</p> <p>621320 Offices of Optometrists</p> <p>621330 Offices of Physicians, Mental Health Practitioners (except Physicians)</p> <p>621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists</p> <p>621391 Offices of Podiatrists</p> <p>621399 Offices of All Other Miscellaneous Health Practitioners</p> <p>Outpatient Care Centers</p> <p>621410 Family Planning Centers</p> <p>621420 Outpatient Mental Health & Substance Abuse Centers</p> <p>621491 HMO Medical Centers</p> <p>621492 Kidney Dialysis Centers</p> <p>621493 Freestanding Ambulatory Surgical & Emergency Centers</p> <p>621498 All Other Outpatient Care Centers</p> <p>Medical and Diagnostic Laboratories</p> <p>621510 Medical & Diagnostic Laboratories</p> <p>Home Health Care Services</p> <p>621610 Home Health Care Services</p>	<p><i>Code</i></p> <p>Other Ambulatory Health Care Services</p> <p>621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)</p> <p>Hospitals</p> <p>622000 Hospitals</p> <p>Nursing and Residential Care Facilities</p> <p>623000 Nursing & Residential Care Facilities</p> <p>Social Assistance</p> <p>624100 Individual & Family Services</p> <p>624200 Community Food & Housing, & Emergency & Other Relief Services</p> <p>624310 Vocational Rehabilitation Services</p> <p>624410 Child Day Care Services</p> <p>Arts, Entertainment, and Recreation</p> <p>Performing Arts, Spectator Sports, and Related Industries</p> <p>711100 Performing Arts Companies</p> <p>711210 Spectator Sports (including sports clubs & racetracks)</p> <p>711300 Promoters of Performing Arts, Sports, & Similar Events</p> <p>711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures</p> <p>711510 Independent Artists, Writers, & Performers</p> <p>Museums, Historical Sites, and Similar Institutions</p> <p>712100 Museums, Historical Sites, & Similar Institutions</p> <p>Amusement, Gambling, and Recreation Industries</p> <p>713100 Amusement Parks & Arcades</p> <p>713200 Gambling Industries</p> <p>713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)</p> <p>Accommodation and Food Services</p> <p>Accommodation</p> <p>721110 Hotels (except Casino Hotels) & Motels</p> <p>721120 Casino Hotels</p> <p>721191 Bed & Breakfast Inns</p> <p>721199 All Other Traveler Accommodation</p> <p>721210 RV (Recreational Vehicle) Parks & Recreational Camps</p> <p>721310 Rooming & Boarding Houses</p>	<p><i>Code</i></p> <p>Food Services and Drinking Places</p> <p>722110 Full-Service Restaurants</p> <p>722210 Limited-Service Eating Places</p> <p>722300 Special Food Services (including food service contractors & caterers)</p> <p>722410 Drinking Places (Alcoholic Beverages)</p> <p>Other Services</p> <p>Repair and Maintenance</p> <p>811110 Automotive Mechanical & Electrical Repair & Maintenance</p> <p>811120 Automotive Body, Paint, Interior, & Glass Repair</p> <p>811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)</p> <p>811210 Electronic & Precision Equipment Repair & Maintenance</p> <p>811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance</p> <p>811410 Home & Garden Equipment & Appliance Repair & Maintenance</p> <p>811420 Reupholstery & Furniture Repair</p> <p>811430 Footwear & Leather Goods Repair</p> <p>811490 Other Personal & Household Goods Repair & Maintenance</p> <p>Personal and Laundry Services</p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet & weight reducing centers)</p> <p>812210 Funeral Homes & Funeral Services</p> <p>812220 Cemeteries & Crematories</p> <p>812310 Coin-Operated Laundries & Drycleaners</p> <p>812320 Drycleaning & Laundry Services (except Coin-Operated)</p> <p>812330 Linen & Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots & Garages</p> <p>812990 All Other Personal Services</p> <p>Religious, Grantmaking, Civic, Professional, and Similar Organizations</p> <p>813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)</p>
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Instructions for Schedule H (100W)

Dividend Income Deduction — Water's-Edge Filers

What's New

Dividends Received Deduction — For taxable years beginning on or after January 1, 2008, the allowable dividends deduction percentage increased from 80% to 85% of the qualified dividends received from an insurer subsidiary.

Important Information

Revenue and Taxation Code (R&TC) Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" for qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and before January 1, 2008, an 80% deduction is allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividends received deduction. See Specific Instructions, Part III, for more information.

In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th 976, 134 Cal Rptr. 2nd 390, the California Court of Appeal found R&TC Section 24402 to be unconstitutional. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.

Specific Instructions

A corporation may eliminate or deduct dividend income when certain requirements are met. The available eliminations or deductions are described below.

Part I — Intercompany Dividends

A corporation may eliminate dividends received from unitary subsidiaries to the extent that the dividends are paid from unitary earnings and profits accumulated while both the payee and payer were members of the combined report. See R&TC Section 25106 for more information.

Complete Schedule H (100W), Dividend Income Deduction — Water's-Edge Filers, Part I and enter the total of Part I, line 4, column (d) on Form 100W, Side 1, line 10.

Part II — Water's-Edge Dividends

R&TC Section 24411 allows a 75% deduction of qualifying dividends received and included in the water's-edge return. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity related to alteration or improvement of land. The construction project, the location of which is not subject to the taxpayer's control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the taxpayer. See R&TC Section 24411 for more information.

In no event will an R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Section 24410 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if both the following conditions are met:

- The average of the payer's property, payroll, and sales factors within the U.S. is less than 20%.
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

Report the dividends received from certain foreign constructions projects in Part II, column (g). Write the dividend payer's name and label dividends received from certain foreign construction projects as "FCP" in Part II, column (a).

Complete Schedule H (100W), Part II and enter the total of Part II, line 4, column (g) on Form 100W, Side 1, line 11a. For Part II, column (d), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part II, column (d).

Part III — Dividends Received Deduction

R&TC Section 24410 provides that a corporation that owns 80% or more of each class of stock of an insurer is entitled to an 80% dividends received deduction for qualified dividends received from that insurer. The deduction would be allowed regardless of whether the insurer does business in California. The 80% deduction applies to taxable years beginning on or after January 1, 2004, and increases to 85% for taxable years beginning on or after January 1, 2008.

The amount of the dividends that qualify for the dividends received deduction is the total amount of dividends received from that insurer, multiplied by the insurer's qualified dividend percentage. The qualified dividend percentage is determined under R&TC Section 24410(c).

To complete Part III:

1. Fill in columns (a) through (c).
2. Enter in column (d) the total amount of insurance dividends received.
3. Enter the qualified dividend percentage in column (e).
4. Multiply the amount in column (d) by the qualified dividend percentage in column (e) and enter that amount in column (f).
5. Multiply the amount in column (f) by 80% and enter the result in column (g).
6. Total amounts in Part III, line 4, column (g). Enter the result here and on Form 100W, Side 1, line 11b.

The calculation of the qualified dividend percentage should be presented in a supplemental schedule that is attached to the taxpayer's return. That schedule should identify the amount of the net written premiums for all the insurance companies in the commonly controlled group for the preceding five years (including an identification of property/casualty premiums, life insurance premiums, and financial guarantee premiums), the relative weight given to each class of net written premiums, and the total income of the insurance companies in the commonly controlled group (including premium and investment income for the preceding five years). See R&TC Section 24410 for more information.

Instructions for Form FTB 2416

Schedule of Included Controlled Foreign Corporations (CFC)

General Information

A Purpose

Revenue and Taxation Code (R&TC) Section 25110(a)(2)(A)(ii) provides that the income and apportionment factors of any Controlled Foreign Corporation (CFC) (as defined in Internal Revenue Code [IRC] Section 957) that has Subpart F income (defined in IRC Section 952) are to be included in the combined report of a taxpayer making a water's-edge election.

Use form FTB 2416, Schedule of Included Controlled Foreign Corporations (CFC), to compute the net income and apportionment factors required to be included in the water's-edge combined report.

B Controlled Foreign Corporation

In general, a foreign corporation is a corporation that is not created or organized in the U.S. or under the laws of the U.S. or any state.

A CFC is any foreign corporation that is more than 50% owned or considered to be owned per IRC Section 958(b) by U.S. shareholders.

C Apportionment

For each CFC, the amounts included in income and the apportionment factors are determined by multiplying the total income and each component of the apportionment factors by a fraction. The numerator of the fraction is the current year total Subpart F income defined in IRC Section 952 and the denominator is the current year earnings and profits (E&P) as defined in IRC Section 964.

See R&TC Section 25110(a)(2) and the related regulations for more information.

Specific Instructions

Column (b) – Country of incorporation

Enter the country of incorporation in column (b). Use the list of country codes on form FTB 2416, Side 2.

Column (c) – Country of primary business activity

Enter the country in which the CFC conducts its primary trade or business in column (c). Use the list of country codes on form FTB 2416, Side 2. This country may be different from the country of incorporation.

Column (d) – Principal business activity (PBA) code

Enter the PBA code of the CFC. The PBA codes are listed on page 16 through page 18 of this booklet.

Column (e) – Subpart F income

In determining whether a CFC has Subpart F income, defined by IRC Section 952, for purposes of R&TC Section 25110(a)(2) and the regulations thereunder, the limitation and exclusions provided for in IRC Section 954(b) shall apply. However, IRC Section 952(c) shall not apply.

For these purposes, Subpart F income does not include income defined in IRC Sections 955, 956, or 956A.

Include both business and nonbusiness income as defined under R&TC Section 25120 for the current year.

If there is no Subpart F income, none of the income or factors of this CFC will be included in the water's-edge combined report. See *Fujitsu IT Holdings, Inc. vs. Franchise Tax Board* (2004) 120 Cal. App. 4th 459.

Column (f) – Current year earnings and profits

E&P, as defined in IRC Section 964, includes both business and nonbusiness income for the current year. In most cases, the E&P can be taken from federal Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, page 4, Schedule H, line 5d.

If there is no current E&P, stop. None of the income or factors of this CFC will be included in the water's-edge combined report.

Column (g) – Percentage

The percentage may not exceed 100% or be less than zero.

Column (h) – Net income

Report the total net income as reflected on the CFC's books and records, adjusted to conform to California tax law.

Columns (j), (l), (n), and (p) – Apportionment factors

Determine the apportionment factors for the CFC to be included in the water's-edge combined report including total average property everywhere, rent expense everywhere, payroll everywhere, and sales everywhere based on the apportionment factor rules set forth in R&TC Sections 25129 through 25137. See California Schedule R, Apportionment and Allocation of Income, for more information.

Column (i) – Net income included in the combined report

Enter total from column (i) on Form 100W, Side 1, line 7a.

Alphabetic Listing of Countries and Codes for Form FTB 2416

Country	Code				
Abu Dhabi	TC	Djibouti	DJ	Kurile Islands	RS
Afghanistan	AF	Dominica	DO	Kuwait	KU
Albania	AL	Dominican Republic	DR	Kyrgyzstan	KG
Algeria	AG	Dubai	TC	Laos	LA
American Samoa	AQ	East Timor	TT	Latvia	LG
Andorra	AN	Ecuador	EC	Lebanon	LE
Angola	AO	Egypt	EG	Lesotho	LT
Anguilla	AV	Eleuthera Island	BF	Liberia	LI
Antarctica	AY	El Salvador	ES	Libya	LY
Antigua and Barbuda	AC	Equatorial Guinea	EK	Liechtenstein	LS
Argentina	AR	Eritrea	ER	Lithuania	LH
Armenia	AM	Estonia	EN	Luxembourg	LU
Aruba	AA	Ethiopia	ET	Macau	MC
Ashmore and Cartier Islands	AT	Europa Island	EU	Macedonia	MK
Australia	AS	Falkland Islands (Islas Malvinas)	FK	Madagascar	MA
Austria	AU	Faroe Islands	FO	Malawi	MI
Azerbaijan	AJ	Fiji	FJ	Malaysia	MY
Azores	PO	Finland	FI	Maldives	MV
Bahamas, The	BF	France	FR	Mali	ML
Bahrain	BA	French Guiana	FG	Malta	MT
Baker Island	FQ	French Polynesia (Tahiti)	FP	Marshall Islands	RM
Balearic Islands (Mallorca, etc.)	SP	French Southern and Antarctic		Martinique	MB
Bangladesh	BG	Lands	FS	Mauritania	MR
Barbados	BB	Gabon	GB	Mauritius	MP
Bassas da India	BS	Gambia, The	GA	Mayotte	MF
Belarus	BO	Gaza Strip	GZ	Mexico	MX
Belgium	BE	Georgia	GG	Micronesia, Federated States of	FM
Belize	BH	Germany	GM	Midway Islands	MQ
Benin (Dahomey)	BN	Ghana	GH	Moldova	MD
Bermuda	BD	Gibraltar	GI	Monaco	MN
Bhutan	BT	Glorioso Islands	GO	Mongolia	MG
Bolivia	BL	Great Britain (United Kingdom)	UK	Montenegro	YO
Bonaire	NT	Greece	GR	Montserrat	MH
Bosnia-Herzegovina	BK	Greenland	GL	Morocco	MO
Botswana	BC	Grenada (Southern Grenadines)	GJ	Mozambique	MZ
Bouvet Island	BV	Guadeloupe	GP	Namibia	WA
Brazil	BR	Guam	GQ	Nauru	NR
British Indian Ocean Territory	IO	Guatemala	GT	Navassa Island	BQ
Brunei	BX	Guernsey	GK	Nepal	NP
Bulgaria	BU	Guinea	GV	Netherlands	NL
Burkina Faso (Upper Volta)	UV	Guinea-Bissau	PU	Netherlands Antilles	NT
Burma	BM	Guyana	GY	New Caledonia	NC
Burundi	BY	Haiti	HA	New Zealand	NZ
Cambodia (Kampuchea)	CB	Heard Island and McDonald Islands	HM	Nicaragua	NU
Cameroon	CM	Honduras	HO	Niger	NG
Canada	CA	Hong Kong	HK	Nigeria	NI
Canary Islands	SP	Howland Island	HQ	Niue	NE
Cape Verde	CV	Hungary	HU	Norfolk Island	NF
Cayman Islands	CJ	Iceland	IC	Northern Ireland	UK
Central African Republic	CT	India	IN	Northern Mariana Islands	CQ
Chad	CD	Indonesia (including Bali, Belitung,		Norway	NO
Chile	CI	Flores, Java, Moluccas, Sumatra,		Oman	MU
China, People's Republic of		Timor, etc.)	ID	Pakistan	PK
(including Inner Mongolia, Tibet,		Iran	IR	Palau	PS
and Manchuria)	CH	Iraq	IZ	Palmyra Atoll	LQ
Christmas Island (Indian Ocean)	KT	Ireland, Republic of (Eire)	EI	Panama	PM
Clipperton Island	IP	Isle of Man	IM	Papua New Guinea	PP
Cocos (Keeling) Islands	CK	Israel	IS	Paracel Islands	PF
Colombia	CO	Italy	IT	Paraguay	PA
Comoros	CN	Jamaica	JM	Peru	PE
Congo (Brazzaville)	CF	Jan Mayen	JN	Philippines	RP
Congo, Democratic Republic of		Japan	JA	Pitcairn Island	PC
(Zaire)	CG	Jarvis Island	DQ	Poland	PL
Cook Islands	CW	Jersey	JE	Portugal	PO
Coral Sea Islands Territory	CR	Johnston Atoll	JQ	Puerto Rico	RQ
Corsica	VP	Jordan	JO	Qatar (Katar)	QA
Costa Rica	CS	Juan de Nova Island	JU	Redonda	VI
Cote D'Ivoire (Ivory Coast)	IV	Kazakhstan	KZ	Reunion	RE
Croatia	HR	Kenya	KE	Romania	RO
Cuba	CU	Kingman Reef KQ	KQ	Russia	RS
Curacao	NT	Kiribati (Gilbert Islands)	KR	Rwanda	RW
Cyprus	CY	Korea, Democratic People's		Ryukyu Islands	JA
Czech Republic	EZ	Republic of (North)	KN	St. Helena (Ascension Island and	
Denmark	DA	Korea, Republic of (South)	KS	Tristan da Cunha Island Group)	SH
		Kosovo	YO	St. Kitts (St. Christopher and Nevis)	SC
				St. Lucia	ST
				St. Pierre and Miquelon	SB
				St. Vincent and the Grenadines	
				(Northern Grenadines)	VC
				San Marino	SM
				Sao Tome and Principe	TP
				Sarawak	MY
				Saudi Arabia	SA
				Senegal	SG
				Serbia	YO
				Seychelles	SE
				Sierra Leone	SL
				Singapore	SN
				Slovakia	LO
				Slovenia	SI
				Solomon Islands	BP
				Somalia	SO
				South Africa	SF
				South Georgia and the South	
				Sandwich Islands	SX
				Spain	SP
				Sprattly Islands	PG
				Sri Lanka	CE
				Sudan	SU
				Suriname	NS
				Svalbard (Spitsbergen)	SV
				Swaziland	WZ
				Sweden	SW
				Switzerland	SZ
				Syria	SY
				Taiwan	TW
				Tajikistan	TI
				Tanzania	TZ
				Thailand	TH
				Togo	TO
				Tokelau	TL
				Tonga	TN
				Tortola	VI
				Trinidad and Tobago	TD
				Tromelin Island	TE
				Tunisia	TS
				Turkey	TU
				Turkmenistan	TX
				Turks and Caicos Islands	TK
				Tuvalu	TV
				Uganda	UG
				Ukraine	UP
				United Arab Emirates	TC
				United Kingdom (England, Wales,	
				Scotland, No. Ireland)	UK
				Uruguay	UY
				Uzbekistan	UZ
				Vanuatu	NH
				Vatican City	VT
				Venezuela	VE
				Vietnam	VM
				Virgin Islands (British)	VI
				Virgin Islands (U.S.)	VQ
				Wake Island	WQ
				Wallis and Futuna	WF
				West Bank	WE
				Western Sahara	WI
				Western Samoa	WS
				Windward Islands	VC
				Yemen (Aden)	YM
				Yugoslavia (Kosovo, Montenegro,	
				Serbia)	YO
				Zaire (Democratic Republic of	
				Congo)	CG
				Zambia	ZA
				Zimbabwe	ZI
				Other Country	OC
				Unknown Country	UC

Instructions for Form FTB 2424

Water's-Edge Foreign Investment Interest Offset

General Information

Revenue and Taxation Code (R&TC)

Section 24344(c) provides that interest expense incurred for purposes of foreign investment (as defined below) may be offset against the foreign dividend deduction allowed under R&TC Section 24411. The foreign investment interest offset may not exceed the total foreign dividend deduction allowed for the taxable year.

Use form FTB 2424, Water's-Edge Foreign Investment Interest Offset, to compute the foreign investment interest offset. The amount of interest expense attributable to foreign investment is equal to the amount of interest expense specifically assigned to foreign investment plus the amount of unassigned interest expense allocated to foreign investment. Unassigned interest expense is allocated by formula. The amount of the offset is limited to the lesser of the following:

- The sum of interest expense specifically assigned and interest expense allocated to foreign investment.
- The foreign dividend deduction.

This limited amount is multiplied by 75% to arrive at the foreign investment interest offset. Interest expense that exceeds the offset amount will be subject to the standard interest offset computation of R&TC Section 24344(b). See FTB Notice 2000-9.

If there is no foreign dividend deduction under R&TC Section 24411, then no foreign interest offset computation is necessary.

A Definitions

1. Foreign investment

Foreign investment is stock or other equity investment, which is included in total assets, regardless of when it was acquired, in the following instances:

- An entity whose dividends would be qualifying dividends for purposes of R&TC Section 24411.
- A non-affiliated corporation that is organized under the laws of a country or political subdivision of a country other than the United States.

To determine the asset value for the foreign investment, see Section B "Asset Values."

2. Interest expense assigned to specific property

Interest expense is considered to be related solely to specific property, if the existence of all of the facts and circumstances described below is established:

- The indebtedness on which the interest was paid was specifically incurred for the purpose of purchasing, maintaining, or improving the specific property.
- The proceeds of the borrowing were actually applied to the specified purpose.

- The creditor can look only to the specific property (or any lease or other interest therein) as security for payment of the principal and interest of the loan and, thus, has no secured interest in any other property of the borrower or the borrower itself with respect to repayment of the loan.

Even though the above facts and circumstances are present in substance as well as form, a deduction for interest will not be considered definitely related to a specific property where the motive for structuring the transaction in the manner described above was without any economic significance.

3. Unassigned interest expense

Interest expense paid that does not meet the above conditions to be assigned, is unassigned interest expense.

4. Interest expense on restricted accounts

Interest expense on restricted accounts is interest expense paid on new debt incurred on or after January 1, 1988, if the proceeds of the debt are deposited into an account that prevents its use for foreign investment and the account is not, in fact, used for foreign investment. However, debt shall not be treated as incurred on or after January 1, 1988, if the majority of the proceeds were used to refinance debt incurred prior to January 1, 1988, or the debt arises pursuant to a line of credit or similar arrangement.

5. Total assets

Total assets means all of the assets of a corporation included in a water's-edge combined report by reason of R&TC Section 25110, after the elimination of intercompany accounts of assets.

6. Average values of assets

An average of values is computed by averaging the value of assets at the beginning and ending of the taxable year.

B Asset Values

Assets and stock or other equity investments with less than 50% ownership are taken into account at the federal tax book value (original cost for federal tax purposes less depreciation, amortization, or depletion).

Stock or other equity investments with more than a 50% ownership are taken into account at the adjusted basis for federal tax purposes if any of the following apply:

- Increased by the amount of the earnings and profits (E&P) of such corporation attributable to such stock or other equity investment and accumulated during the period the stock or other equity investment was owned by another affiliated corporation.

- Reduced (but not below zero) by any deficit in E&P of such corporation attributable to such stock or other equity investment for such period.

See R&TC Section 24344(c) and the related regulations for more information.

Specific Line Instructions

Line 2

Enter total interest expense for all entities included in the water's-edge combined report filed pursuant to R&TC Section 25110, net of intercompany interest expense.

Line 3

Enter the interest expense specifically assignable to foreign investments. See R&TC Section 24344(c) and the related regulations for more information.

Line 4

Enter the interest expense specifically assignable to domestic investments or other property. See R&TC Section 24344(c) and the related regulations for more information.

Line 11

Unassigned foreign investment is the average value of all foreign investment to which interest is not specifically assigned.

Line 12

Unassigned total assets is the average value of all the water's-edge group's unassigned total assets.

Line 13

In calculating the percentage, do not include any foreign investment, and assets to which interest expense has been specifically assigned.

If the taxpayer reported the foreign dividend deduction for dividends received from foreign investments and foreign construction projects, the taxpayer must calculate a separate foreign investment interest offset for each component. The two separately calculated amounts are then added together and entered on Schedule R, Side 1, line 1b.



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By phone – You can order current year California tax forms between 6 a.m. and 8 p.m. Monday through Friday, except holidays.

- Refer to the list in the right column and find the code number for the form you want to order.
- Call **(800) 338-0505**.
- Select “Business Entity Information.”
- Select “Forms and Publications.”
- Enter the three-digit code shown to the left of the form title when instructed.

Allow two weeks to receive your order. If you live outside California, allow three weeks to receive your order.

In person – Many libraries have forms and schedules for you to photocopy (a nominal fee may apply).

Employees at libraries cannot provide tax information or assistance.

By mail – Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. Do **not** attach correspondence to your tax return unless the correspondence relates to an item on the return.

General Toll-Free Phone Service

Telephone assistance is available year-round from 7 a.m. until 6 p.m. Monday through Friday, except holidays.

From within the United States **(800) 852-5711**
From outside the United States (not toll-free) (916) 845-6500
For federal tax questions, call the IRS at (800) 829-1040

Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairment, call:

TTY/TDD (800) 822-6268

Asistencia bilingüe en español:

Asistencia telefónica esta disponible todo el año durante las 7 a.m. y las 6 p.m. lunes a viernes, excepto días festivos.

Dentro de los Estados Unidos, llame al (800) 852-5711

Fuera de los Estados Unidos, llame al
(cargos aplican) (916) 845-6500

Para preguntas sobre impuestos federales,
llame el IRS al (800) 829-1040

California Tax Forms and Publications

817 California Corporation Tax Forms and Instructions.

This booklet contains:

Form 100, California Corporation Franchise or Income Tax Return;
Schedule H (100), Dividend Income Deduction
Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations
FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs
FTB 3565, Small Business Stock Questionnaire
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations
FTB 3885, Corporation Depreciation and Amortization

816 California S Corporation Tax Forms and Instructions.

This booklet contains:

Form 100S, California S Corporation Franchise or Income Tax Return;
Schedule B (100S), S Corporation Depreciation and Amortization
Schedule C (100S), S Corporation Tax Credits
Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains
Schedule H (100S), S Corporation Dividend Income Deduction
Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.
Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet
FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

814 Form 109 Booklet, California Exempt Organization Business Income Tax Return

818 Form 100-ES, Corporation Estimated Tax

815 Form 199, California Exempt Organization Annual Information Return and Instructions

802 FTB 3500, Exemption Application

Your Rights As A Taxpayer

The FTB's goals include making certain that your rights are protected so that you have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you request written advice from the FTB on whether a particular transaction is taxable.

See “Where To Get Income Tax Forms and Publications,” on this page.



Use our automated toll-free phone service to get recorded answers to many of your questions about California taxes and to order current year California business entity tax forms and publications. This service is available in English and Spanish to callers with touch-tone telephones. Have paper and pencil ready to take notes.

Call from within the United States (800) 338-0505
Call from outside the United States (not toll-free). (916) 845-6600

To Order Forms

See "Where to Get Tax Forms and Publications" on the previous page.

To Get Information

You can hear recorded answers to Frequently Asked Questions 24 hours a day, 7 days a week. Call our automated phone service at the number listed above. Select "Business Entity Information," then select "Frequently Asked Questions." Enter the 3-digit code, listed below, when prompted.

Code Filing Assistance

- 715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 24 of Form 100 or Form 100W?
- 717 What are the tax rates for corporations?
- 718 How do I get an extension of time to file?
- 722 When does my corporation have to file a short-period return?
- 734 Is my corporation subject to franchise tax or income tax?

S Corporations

- 704 Is an S corporation subject to the minimum franchise tax?
- 705 Are S corporations required to make estimated payments?
- 706 What forms do S corporations file?
- 707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?

Exempt Organizations

- 709 How do I get tax-exempt status?
- 710 Does an exempt organization have to file Form 99?
- 736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 99?

Minimum Tax and Estimate Tax

- 712 What is the minimum franchise tax?
- 714 My corporation is not doing business; does it have to pay the minimum franchise tax?

Billings and Miscellaneous Notices

- 503 How do I file a protest against a Notice of Proposed Assessment?
- 723 I received a bill for \$250. What is this for?

Corporate Dissolution

- 724 How do I dissolve my corporation?

Limited Liability Companies (LLC)

- 750 How do I organize or register an LLC?
- 752 What tax forms do I use to file as an LLC?
- 753 When is the annual tax payment due?

Miscellaneous

- 700 Who do I need to contact to start a business?
- 701 I need a state Employer ID number for my business. Who do I contact?
- 703 How do I incorporate?
- 737 Where do I send my payment?

